CHAPTER -I

INTRODUCTION

1.1 Background of the study

Industry and commerce play vital role in the economic development of the country. Many developed countries have proved that for overall development of the country, industry and commerce play a main role. As development proceeds, the share of industry and service sector dominates. Nepal is predominantly an agricultural country. Agricultural is still the mainstay of Nepalese economy. This sector alone has provided employment to nearly 80 % of the labor force. It contributes 41 % to gross domestic product. Despite the emphasis being given to the development of agriculture sector since the fifth plan, a radical change is yet to be seen in this sector. *(Khan and Jain; 1999: 269)*

In simple language, bank can be defined as a place where the transactions of money take place. In other words, bank is such an institution that collets scattered deposits and paid advances, loans. Banks collect deposits from different individuals and institutions. These collected deposits are mobilized by giving loans to different industries, commercial enterprises, individuals, households etc. A bank not only performs the activity of receiving deposits and advancing loans but at the same time it performs payment or remittance and other credit activities as well. Therefore, bank plays a significant role in the economic development of the country; bank fills the gap between the searcher and provider of fund. It also provides sufficient back support for the growth and expansion of trade and industry of the country, which eventually aids to its economic condition. There is a need of good efforts to transfer the increased labor force to the non- agriculture sector. There is a need of good efforts to transfer the increased labor to the non-agriculture sectors like industry, trade, tourism, communication etc. The average per capita income of Nepalese is lower than in developed countries. This has resulted into lower savings or negative savings in most of the cases. So capital formation is either very slow or negative. Therefore, several efforts have been made from concerned sectors to diversify the economic contributors from solely agro-based towards industry based. To increase the pace of industrialization huge amount of capital is needed and at this threshold, actual need of bank or financial institution occurs. The banking and financial infrastructure is inadequate and insufficient and needs to be expanded to finance to growth of industrialization and service sector in the country. Finance is the lifeblood and the role of banks to the development of Nepal is paramount.

Earlier banks were different from modern commercial banks in many respects. The banks, which operated in the past, combined central banking functions, such as issue of currency with commercial banking functions like accepting deposits and financing business. In course of time this practice was abandoned and specialized institutions for the central banking functions were created. Now a central bank can be easily distinguished from a commercial bank due to their objectives and unique functions.

Commercials banks are the supplier of finance for trade and industry and play a vital role in the economic and financial life of the country. By investing the saving in the productive areas, they help in the formation of capital. The qualitative credit policy ensures certain portion of the credit of bank invested in the productive and priority areas so that there may not be shortage of resources in such areas. Moreover, flexible monetary and credit policy improve the prevailing slow down in the economic activities to alleviate sluggish credit expansion to the private sector from the banking sectors. People living in rural areas of the underdeveloped countries like Nepal need various banking facilities. In most of the countries, the banks are generally concentrated in the urban and semi-urban areas and the rural areas are neglected due to risk and low return. But in fact, the rural development is the key to the economic development without which the economy of the country cannot be flourished. In the developing countries like Nepal the propensity to save is quite low. This hinders the capital formation and which is major cause of poor economic condition of the developing countries. That’s why the basic problem of the developing countries is raising the level of saving. Nowadays in Nepal, several banks such as development banks, joint venture banks, commercial banks, agricultural banks, co-operative etc are coming into existence in quite a few numbers with the purpose to collect the scattered saving and put them into productive channels so that the saving will be safely and properly utilized for the all round development of the country.

Every business needs capital for two purposes. The first require for long term purposes which is called fixed capital. Investment in plants, machinery, land, building etc. comes under production activity. Investment in these assets represents that part of firm’s capital which is huge amount of money blocked in the fixed basis. These assets are not purchased for resale. We need another type of capital is short term capital or working capital. The funds required for purchase of raw material, payment of wages and other day to day expenses etc. is called as working capital. Working capital is invested into the work-in-progress, raw material, finished goods, sundry debtors, bills receivable etc. also comes under working capital. The capital required for running day-to-day operation of a business is called working capital. It is concerned with current assets and current liabilities. Assets of an essential short term nature are known as current assets. It is a short term investment. Current assets are expected to be converted into cash within a short period. These assets which are either readily available cash or are convertible into cash within a short time relatively during the normal course of business is known as current assets. Liability is another part concerned with working capital. Those liabilities which are expected to have been paid within a short period are known as current liability.

1.2 Focus of the study

This study focuses on how the Nepalese commercial joint venture banks utilized the available working capital funds very well. This study also focuses on the relationship between current assets and current liabilities and relationship of other variables, which affect the working capital management. This study also focuses the working capital management and its significance. Working capital is the life-blood of every business activities. It is a controlling nerve center of business the success and failure of any business organization is heavily dependent upon the sort of efficiency in its working capital management . it is the process of planning and controlling the level and mix of current assets of the firm as well as financing these assets. Specially, working capital management requires financial managers to decide what quantity of cash, other liquid assets, account receivables, and inventories. .

Working capital management is concerned with the problem that arises in attempting to manage the current assets, current liabilities and, interrelationship between them. The basic total of working capital management is to manage the currency assets and current liabilities of firm. In such a way that the satisfactory working capital is maintained i.e. these are neither inadequate not excessive. No adequate of working capital may lead the firm to insolvency and excessive working capital implies idle fund, which earns no profit for the business.

Any business firm, working capital management essentially mainly four reason. First, business firm determine the adequate of investment in current assets, otherwise it would seriously erode their liquidity base. Secondly, they must be selected type of current assets suitable for investment so as to raise their operational efficiency. Thirdly, that are required to ascertain the turnover, the current assets that greatly determine the profitability of the private enterprises and lastly, that must find out the appropriate source of funds to finance current assets.

The risk can be measured by working capital. Working capital increases in two conditions, by increasing on current assets or decreasing current liabilities. So it is assumed that the greater the amount of net working capital. Less risky the firm is, by increasing the working capital, the firm will be more liquidity position. The chances of insolvent will be low in that case. In some ways if the working capital decreases. The risk increase and side-by-side these will be more chance of insolvent.

That is why; taking into consideration the all above facts the researcher has taken this subject for detailed study. The study is directed toward the working capital management of selected different Nepalese commercial joint venture banks, to analysis the working capital, to find out major suggestive recommendation to solve the working capital management that selected company's objective can be achieved. Thus it is an exploratory fact finding research study.

Nepal Credit and Commerce (NCC) Bank Limited

Nepal Credit and Commerce (NCC) Bank limited was formally registered as Nepal -Bank of Cylon limited(NBOC) on 14th October 1996 as a joint venture bank of Cylon, Sri Lanka. It's name was changed on 10th September 2002 due to transfer of shares and management of the bank from Bank of Cylon an undertaking of Government of Sri Lanka to Nepalese promoters. The head office of NCC bank Limited is Situated at Siddarthanagar, Rupendehi. Its corporate office is at Bagbazar, Kathmandu. It has total 18 branches throughout the country. The NCC Bank Limited has Board of Directors of 7 members. The chairman of NCC Bank Limited is Mr. Prithvi Raj Ligal. The General Manager Is Ramesh Raj Aryal and Executive Director is Amrit Charan Shrestha.

At present, NCC Bank provides banking facilities and services to rural and urban areas of the Kingdom through its 17 branches. The Bank has developed corresponding agency relationship with more than 150 International Banks having worldwide network.

Capital Structure of Nepal Credit and Commercial Bank Limited

Authorized Capital	Rs. 2 Billion
Issued Capital	Rs. 2 Billion
Paid Up Capital	Rs. 1.47 Billion

The main banking products of NCC Bank Limited can be listed as:

- NCC Karmachari Bachat Khata
- NCC Mahila Surkshya Khata
- NCC Bal Bachat Khata
- NCC Jyastha Nagarik Bachat Khata
- NCC Money Transfer
- NCC Saving Plus etc

The Bank is providing modern banking services to its customers like:

- Any Branches Banking System (ABBS)
- E-Banking
- Automated Teller Machine (ATM)
- 365 Days Banking
- Telephone Bill Payments etc.

  Source: http://www.nccbank.com.np

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries, which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, and Singapore Bank has set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services.

Joint Venture Partner

Punjab National Bank (PNB), our joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India. With its presence virtually in all the important centers at India, Punjab National Bank offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. Among the clients of the Bank are Indian conglomerates, medium and small industrial units, exporters, non-resident Indians and multinational companies. The large presence and vast resource base have helped the Bank to build strong links with trade and industry.

Awards

- The bank has been conferred with “Bank of the Year 2006, Nepal” by the banker, a publication of financial times, London.
- The bank was bestowed with the “NCCCI Excellence award” by Nepal India chamber of commerce for its spectacular performance under finance sector

Pioneering achievements

Recognizing the value of offerings a complete range of services, we have pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals. EBL was one of the first banks to introduce Any Branch Banking System (ABBS) in Nepal.

EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind. EBL has introduced branchless banking system first time in Nepal to cover unbanked sector of Nepalese society.EBL is first bank that has launched e-ticketing system in Nepal. EBL customer can buy yeti airlines ticket through internet.

Capital Structure of Everest Bank Limited

Authorized Capital	2,000,000,000
Issued Capital	1,391,635,700
Paid Up Capital	1,391,635,700

www.everestbankltd.com

1.3 Statement of the Problem

There are many commercial banks in our country. These banks play important role in the economic development of the country. Wrong decisions on working capital management of commercial banks not only affect the liquidity and profitability of the bank but also economic condition of the country. Working capital management of bank is difficult then other manufacturing and non-manufacturing business organization. Commercial banks are great monetary institutions, which are playing important role to general welfare of the economy. The responsibility of commercial banks is more than any other financial institutions. They must be ready to pay on demand without warning

or notice, a good share of their liabilities. Banks collect funds from different types of deposits for providing loan and advances to different sector. To get higher return, banks must try to increase funds from deposits as well as their needy people. But commercial banks always face the problem for utilizing more deposits and disbursement of loans. Cash balance also decrease profitability of banks. Increase the cash balance on bank, which require paying its large amount of liabilities on its demand without depositors' notice. But large amount remain idle.

There are many problems but some of the major problems that have been identified for the purpose of this study are as follows:

- What is the condition of liquidity, assets utilization and composition of working capital and profitability position of the sample banks?
- How to analyze the current assets ,current liabilities and their impact on liquidity and profitability
- What kind of recommendation and suggestion give them for the betterment of sample banks?

1.4 Objective of the Study

Working capital plays a vital role behind the success or failure of the business. Working capital has to be adequate. The excess or the shortfall of the working capital is harmful for a business. The main objectives of the study are as follows:

- To analyze the liquidity, assets utilization, composition of working capital and profitability positions of the banks.
- To study the current assets and current liabilities and their impact on liquidity and profitability.

- To provide appropriate recommendation and suggestion for the improvement of the working capital management and enhancing the profitability scenario of commercial banks.

1.5 Limitations of the Study

Limitation exists everywhere and this study is also not an exception of it. Following are some limitations.

- The study is based on the secondary data.
- The study is limited time for working capital management.
- The study is confined to two banks.
- Due to time constraint, all the related areas are not possible to cover in depth.

1.6 Organization of the study

This study consisted of five chapters:

Chapter-I Introduction

Chapter-II Review of literature

Chapter-III Research methodology

Chapter-IV Data presentation and analysis

Chapter-V Summary, Conclusion and Recommendation

The first chapter begins with the background and introduction; it includes focus of the study, statement of problem, objective of the study, significance of the study, limitation of the study and its organization. The second chapter focuses on review of literature. The third chapter deals with the research methodology which has been followed to achieve the purposes of the study .Similarly, the fourth chapter gives a clear picture of how the collected data has been presented on the study and how it has been analyzed. The fifth chapter includes summary, conclusion and recommendation. .

CHAPTER- II

REVIEW OF LITERATURE

The second chapter of this thesis throws light on the conceptual framework of commercial bank and working capital management. It also provides insight into the findings of earlier studies through the review of books, publications and previous studies related to the working capital management.

2.1 conceptual frameworks

The concept evolved from the concept of commerce and bank. Commercial bank is the financial institution that deals in accepting deposits of individuals and institutions, and giving loans against securities. Commercial bank also provides technical and administrative assistance to industries, trades and businesses. There are different types of banks such as agriculture bank industrial bank, joint venture bank etc. this classification is done on the basis of their functions, which they render to their customer. With regard to the functions of banks, commercial bank performs their own functions, which are different from the functions performed by the other banks. Commercial bank serves the following functions:

- To accept deposit
- To provide loan
- To purchase bills
- To transfer money
- To foreign currency exchange
- To deals letter of credit
- To help in issuing share

2.2 Concept of working Capital Management

Finance is the life blood for any organization, without which the operation of a business concern is not possible. But only the availability of funds is not enough, It requires the proper management of those funds to drive a firm on the road to success. The management of the funds of a business can be described as financial management. Financial management is mainly concerned with two aspects. They are fixed assets & liabilities and current assets & liabilities. Fixed assets and fixed liabilities are long term investment and sources of funds. Current assets and current liabilities means current or the short term uses and sources of funds. Both of such funds play an important role in financial aspects of a business concern.

The term working capital management is associated with the short term financing and it is concerned with the collection and allocation of resources in the proper manner. Working capital management is the tool by which we can find solutions related to the problems that arise in attempting to manage the current assets, the current liabilities and the appropriate combination of these for the efficient operation of the business activities.

Working capital refers to the resources of the firm that are used to conduct operation of day to day activities that make the business successful. Without cash, bills cannot be paid. Without receivables and payables the firm cannot allow the timing difference between delivery of goods and services and collecting the money to pay for them. Without inventories the firm cannot engage the production and nor can it stock goods to provide immediate deliveries. As a result of the critical nature of current assets the management of working capital is one of the most important areas in determining whether a firm will be successful. Working capital are those resources which can be converted into cash within a year and net working capital is defined as the difference between current assets and current liabilities.

The goal of working capital management is to support the long term operation and financial goals of the business. In effect, this involves recognizing the relationship between risk and return. Three elements must be included in analyzing the tradeoff between risk and return when managing working capital.

The first one is insolvency, which is the condition that occurs when a firm can no longer pay its bills and must default on obligations and possibly declares bankruptcy. A firm without the adequate level of working capital may have to face this risk.

The second one is profitability of the assets. Different level of current assets will have varied bearings on profits. A high level of inventory will require high carrying cost. At the same time, the firm will have a wide range of goods to sell and may be able to generate higher sales and profit. Each decision on the level of cash, receivables and inventory should consider the effects to different levels.

The third one is the cost of financing. When interest rates are high, it costs more to carry inventory than when the rates are low. Large cash balances may not earn the return that is possible if the cash is converted into operating assets. The cost of debt and the opportunity cost of alternative investments are the items to consider when evaluating working capital level.

There are two concepts of working capital, Gross concept and net concept. The gross working capital, simply called as working capital, refers to the firm’s investment in current assets. Current assets are the assets, which can be converted into cash within the accounting year and include cash,, short term securities, debtors, Bills receivables and stocks. The term net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders, which are expected to mature for payment within an accounting year and include creditors, bills payables, and outstanding expenses. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities and a negative net working capital arise when current liabilities are in excess of current assets.(Pandey; 1992:796).

After going through the above concepts of working capital, we can conclude that adequate working capital is the essential condition for any organization, whether it is private or public, manufacturing or non-manufacturing. When a firm holds excessive working capital, it affects a firm’s profitability just because an idle investment yields nothing. Likewise, inadequate investment on working capital affects the liquidity position of the company and leads to financial crisis and downfall of the company, so it is very clear that any mismanagement in working capital can hamper the overall efficiency of an organization.

2.3 Types of working capital

There are two types of working capital, permanent and variable working capital. These working capitals are necessary for any organization for continuous production and sales without any interruption.

2.3.1 Permanent working capital

Permanent working capital refers to that level of current assets, which is required on continuous basis over the entire year. A manufacturing concern cannot operate regular production and sales functions in the absence of this portion of working capital. That is why a firm holds certain amount of working capital in order to ensure uninterrupted production and sales functions. It is directly related to the firm’s expansion of operation capacity. Business firm could not be able to survive itself in the competitive market without permanent working capital.(Kucchal :198:161)

2.3.2 Variable working capital

Variable working capital is also known as temporary ,seasonal and fluctuate working capital. It represents the extra working capital required at certain times during the operation year to meet some special emergency. It may required in certain abnormal conditions like strikes, lock out, dull market condition and cut throat competition. Therefore the firm to meet liquidity requirement that will last only temporary creates temporary working capital.(Kucchal:1998:161)

2.4 Working Capital Policy

Working capital policy refers to the firm’s basic policies regarding target levels for each category of current assets and how current assets will be financed. So, in working capital management, a firm has to determine how much funds should be invested in working capital in gross concept. Every firm can adopt different financing policies according to the financial manager's attitude towards the risk- return trade off. One of the most important decisions is the financing of current assets.

2.4.1 Current Assets Investment Policy

Current assets investment policy refers to the policy regarding the total amount of current assets to be carried to support the given level of sales. There are three alternative current assets investment policies. Fat cat, Lean & Mean and Moderate.

2.4.1.1 Fat Cat Policy

This is also known as relaxed current assets investment policy, under which relatively large amount of cash, marketable securities and inventories are carried while sales are stimulated by a liberal credit policy which results in a high level of receivables which also creates the longer receivables collection period. Thus this policy provides the lowest expected return on investment with lower risk. (Weston & Brigham; 1996:344).

2.4.1.2 Lean and Mean Policy

This is also known as restricted current assets investment policy, under which holdings of cash, marketable securities, inventories and receivables are minimized. This policy tends to reduce the receivable conversion cycle. Under I firm follows a tight credit policy and bears the risk of losing sales.(Weston & Brigham; 1996:344).

2.4.1.3 Moderate Policy

It is the policy that lies in between the relaxed and restrictive policies. Under it, a firm holds the amount of current assets in between the relaxed and restrictive policies. Both the risk and return are moderate in this policy.

2.4.2 Current Assets Financing Policy

Under this policy, permanent & temporary current assets are financed with funds raised from different sources. As cost & risk affect the financing of any assets, it should clearly outline the sources of financing. Aggressive, conservative and matching are the three policies under current assets financing.

2.4.2.1 Aggressive Policy

Under aggressive policy, all the fixed assets of the firm are financed with long term capital, yet some of the firm's permanent current assets are financed with short term, non spontaneous sources of fund. (Weston & Brigham; 1996:348)

In other words, the firm not only finances temporary current assets but also a part of permanent current assets with short term financing. In general, Interest rate increases with time, i.e. shorter the time, lower the interest rate. It is because lenders are risk averse and risk generally increases with the length of lending period. Thus under normal circumstances, the firm borrows on a short term financing rather than long term financing. On the other hand, it the firm finances its permanent short term financing, then it runs the risk of renewing the borrowing again and again. This future interest expenses will fluctuate widely, and it may also be difficult for the firm to raise the funds during the stringent credit policy. In conclusion, there is higher risk, higher return and low liquidity position under this policy.

2.4.2.2 Conservative policy

Under this policy, the firm uses long term financing not only to finance fixed assets and permanent current assets but also a part of temporary current assets.(Weston & Brigham; 1996: 348) it means that the firm depends upon the long term sources for financing needs. This policy leads to the high level of current assets, long conversion cycle, low level of current liabilities and higher interest cost. The risk and return are lower than that of aggressive one. The risk average management follows this policy.

2.4.2.3 Matching Policy

It is self-liquidity approach, in which the firm finances the per assets with long term financing and temporary current assets with short term financing. It means that the firm matches the maturity of financing source with an assets useful life. It lies in between the aggressive and conservative policies. It leads to neither high nor low, Level of current assets and current liabilities. It lies in between a low profitability.

2.4.3 Determinants of Working Capital

All the firms; whether public or private, manufacturing or non-manufacturing, must have adequate working capital to survive in competitive market. It should have neither too excess nor too inadequate working capital. But there are no sets of rules or formulae to determine the working capital requirement of a firm. It is because a large number of factors that influence the working capital requirement of a firm. A number of factors affect different firm. In different way, internal policies and changes in environment also affect the working capital requirement. Generally the following factors affect the working capital requirement of the firm. (pandey; 1999: 816).

2.4.3.1 Nature and Size of Business

Working capital requirement depends on the nature and size of the business. Bigger firm requires more working capital while a small firm needs less working capital. Trading and financial firm require larger amount of working capital to public utilities, while manufacturing concern lies between these two extremes.

2.4.3.2 Growth and Expansion

A growing firm needs more working capital than those of static ones. However it is difficult to precisely determine the relationship between the growth and expansion of the firm and working capital requirements.

2.4.3.3 Credit Policy

Working capital requirement depends on terms of sales. Different terms may be followed to different customers according to their credit worthiness. If a firm follows the liberal credit policy them it requires more working capital. Conversely, if it follows the stringent credit policy, it requires less working capital.

2.4.3.4 Production Policy

If a firm produces seasonal goods, then it sells its products in a certain month of the year. In such circumstances, it can either confine its production to only that period when goods are sold or follow a steady production policy throughout the year and produce goods at that level to meet the peak demand. The former policy does not need more working capital than the latter does.

2.4.3.5 Availability of Credit

It is another factor that affect the working capital requirement. If the creditors avail a liberal credit terms them the firm will need less working capital and vice versa. In other words, if the firm can get credit facility easily on favorable conditions, it requires less working capital to run the firm smoothly otherwise more working capital will be required to operate the firm smoothly.

2.4.3.6 Manufacturing Cycle

Working capital requirement of a firm is also influenced by the manufacturing or production cycle. Production cycle refer to the time involved to make the finished goods from raw materials. During the process of production cycle, the larger will be the working capital requirement and vice versa.

2.4.3.7 Profit Margin

The level of profit differs from firm to firm. It depends upon the nature and quality of a product, marketing management and monopoly power in the market. It a firm deals with the high quality product, has a sound marketing management and has enjoyed monopoly power in the market then it earns quite high profit and vice versa. Profit is a source of working capital pool by generating more internal funds.

2.4.3.8 Price Level Changes

Generally a firm is required to maintain the higher amount of working capital if the price level rises as the same level of current assets needs more funds to the increasing price. Hence, the implication of changing price level on working capital position will vary from firm to firm depending on the nature and other relevant consideration of the operation of the concerned firms.

2.4.3.9 Operating Efficiency

Operating efficiency also has a big influence on the working capital requirement of the firm. Operating efficiency refers to the efficiency utilization of the available resources at minimum cost. Thus, financing manager can contribute to strong operating efficiency then it needs less amount of working capital otherwise it requires large amount of working capital. (Pandey; 1999:817 – 819).

2.4.3.10 Level of Taxes

The level of taxes also influences the working capital requirements of the firm. The amount of taxes to be paid in advance is determined by the prevailing tax regulations. But the firm's profit is not constant or can't be predetermined. Tax liability in a sense of short term liquidity is payable in cash thus, the provision for tax amount is one of the important aspects of working capital planning. If tax liability increases, it needs to increase the working capital and vice versa.

2.4.3.11 Need for Working Capital

Working capital is the lifeblood and controlling nerve centre of every business organization as without the proper control upon working capital no business organization can operate smoothly, therefore, it plays a crucial role in the success & failure of the organization. The need for working capital to run the day to day business activities cannot be overemphasized. We can hardly find a business firm which does not require any amount of working capital. Indeed, firms differ in their requirements of the working capital. As we know that business firms aim at maximizing the wealth of shareholders. In its endeavor to do so, a firm should earn sufficient return from its operation. The extent to which profit can be earned naturally depends upon the magnitude of sales among other thing. For the constant operation of business, every firm needs to hold the working capital components such as cash, receivables, inventory etc. hence, and every firm needs working capital to meet the following motives. (Pandey; 1999:809)

2.4.3.12 Transaction Motive

Transaction motive require a firm to hold cash & inventories to facilitate smooth production and sales operations regularly. Thus, the firm needs working capital to meet the transaction motive.

2.4.3.13 Precautionary Motive

Precautionary motive is the need to hold cash & inventories to guard against the risk of unforeseen & unpredictable change in demand & supply forces and other factors such as strike, failure of important customers, unexpected slowdown in collection of account receivables, cancellation of some other order for goods and some other unexpected emergencies. Therefore, the firm needs the working capital to meet contingencies in the future.

2.4.3.14 Speculative Motive

It refers to the desire of a firm to exploit opportunities as an opportunity of purchasing raw materials at reduced price on immediate payment, making investment on lucrative fields, to speculate on interest rates, to make purchase at favorable price and the like. Hence, the firm needs the working capital to meet the speculative motive. (Van Horne & Wachowicz; 1999:220).

2.4.3.15 Financing of Working Capital

Every manufacturing concern or industry requires additional assets whether they are in stable or growing state. When the growing firm wants to generate sustained profit, it normally requires fixed as well as working capital. Additional portion of the working capital is approximately dominated by the same rate of sales. However, this portion of capital requirement depends upon the nature of the firm. So, the most important function of a finance manager is to determine the level of working capital and to device how it is to be financed. Financing of any assets is concerned with two major factors- cost and risk. Therefore, the financial manager must determine an appropriate financing mix or decide how current liabilities should be used to finance current assets. However, a number of financing mixes are available to the finance manager. He can present generally three kinds of financing:

2.4.4 Long Term Financing

Long term financing has high liquidity and low profitability. Ordinary share, debenture, preference share, retained earnings and long term debts are the major sources of long term financing.

2.4.5 Short Term Financing

Business firm must arrange short term credit in advance. The sources of short term financing of working capital are trade credit and bank credit.

2.4.5.1 Trade Credit

It refers to the credit that a customer gets from supplies of goods in the normal course of business. The buying firms does not have to pay cash immediately for the purchase, is trade credit. It is mostly an informal arrangement and granted on an open account basis. Another form of trade credit is bills payable. It depends upon the term of trade credit.

2.4.5.2 Bank Credit

Bank credit is a primary institutional source for working capital financing. For the purpose of bank credit, amount of working capital requirement has to be estimated by the borrowers and banks are approached with the necessary supporting data. Bank determines the maximum credit based on the margin requirements of the security. The following types of loan are provided by commercial banks.

Loan Arrangement

Under this arrangement the entire amount of loan is given credit by the bank to the borrowers account, and the loan is repaid in installments and the interest is payable on actual outstanding balance.

Overdraft Arrangement

Under this arrangement the borrower is allowed to over draw on his current account with the bank up to the stipulated limit. Within this limit, a numbers of drawing are permitted and repayment should be made in short period.

Commercial Papers

It is used only by well-established high quality business houses. The evidence of debts is an unsecured short term promissory note sold in the money market. It sold either through dealers or directly to investors. Besides the above form of credit, bank provides loan against the warehouse receipt, inventory receivables. In our context, most popular sources of short term financing are short term loan from public deposit, which is also a major source of working capital financing.

Spontaneous Financing

Spontaneous financing arises from the normal operation of the firm. The two major sources of such financing are trade credit and accruals. Whether trade credit is free of cost or not actually depends on the term of trade credit. Finance manager of the firm would like to finance its working capital with spontaneous sources as much as possible. In practical aspect, the real choice of current assets financing is either short term or long term sources. Thus, the finance manager concentrates his power in short term versus long term financing. Hence, the financing of working capital depends on the working capital policy, which is perfectly dominated by the management's attitude towards the risk & return. (Pandey; 1999: 827)

Significance of Working Capital Management

The management of working capital is important for several reasons. For one thing, the current assets of a typical manufacturing firm account for over half of its total assets. For a trading firm, the account for even more excessive levels of current assets can easily result in a firm realizing a substandard return on investment. However, firms with too few current assets may incur shortages and difficulties in maintaining smooth operations.

For small companies, current liabilities are the principal sources of external financing. These firms do not have access to the longer term capital markets, other than to acquire a mortgage on a building. The fast growing but larger company also makes the use of current liability financing. For these reasons, the finance manager and the staffs devote a considerable portion of their time to the matters related to working capital. The management of cash, marketable securities, account receivables, account payable, accruals and other means of short term financing is the direct responsibility of the finance manager; only the management of inventories is not. Moreover, these management responsibilities require continuous, day to day supervision. Unlike Working capital and capital structure decisions, we cannot study the issue, reach a decision, and set the matter aside for many months to come. Thus, working capital management is important, if for no other reason than the proportion of the finance manager’s time that must be devoted to it. More fundamental, however, is the effect that working capital decisions have on the company’s risk, return, and share price. (Van Horne & Wachowicz; 1999: 204).

2.5 Reviews of Journals/ Articles

This section is also important for literature review of working capital. For the study of this section many latest information can be derived about related field. This part is mainly focused on the review of journals and research studies published by different management experts about working capital management Joseph (1962) has presented the article on “working capital concept”. This article looks a fresh at the problem of determining working capital, and purposes a simple yet comprehensive restatement of principle with respect to current assets and current liabilities. The working capital measures the liquidity, the fluidity of capital and serves as an indicator of balance sheet in the assets and liability structure of the company. Bank and the other short-term creditor are vitally interested in the amount of working capital from the stand point of evaluating the prospect of repayment of their claim against the company. Why firms have different level of working capital. The paper dealt with the strategic determinant of working capital (cash, short-term securities, account receivable and inventory) on a product line basis. The factors analysis is to test 1666 variables against the working capital policies of over 1700 business, or product lines, from 1971 to 1978. His final multiple regression models contained 19 variables pertaining to productions, sales, accounting, competitive position and industry factors.

Pradhan R. S. (2009), in his article, *"The Demand for Working Capital by Nepalese Corporations"*, selected nine manufacturing public corporations for the analysis with 12 years data 1973 to 1984. Regression equation had been adopted for the analysis. From his study, he concluded that:

- Public enterprises should take care of negatively affecting policies directives from HMG Nepal itself.
- Earlier studies concerning the demand for cash and inventories by business firms did not report unanimous findings.
- A lot of controversies exist with respect to the presence of economies of scale, role of capital cost, capacity utilization rates, and the speed with which actual cash and inventories are adjusted to describe cash and inventories respectively.

L.D. Mahat (2010), has published article relating to "*Spontaneous Resources Working Capital Management"*. The article has defined the three major sources of working capital i.e. equity financing, debt financing and spontaneous sources of financing, regarding the working capital management. Debt financing includes short term, bank financing such as bank overdraft, cash credit, bills purchase and discounting, letter of credit etc. whereas spontaneous sources of working capital include trade credit, provisions and accursed expenses. The articles has defined that working capital management is one of the important pillars of corporate finance. However, Nepalese industries are facing difficulty in their survival by the cause of recession, which can bring best and worst in corporate finance such as environment should be enough to cope with the possible worst happening in future for working capital management.

- Public enterprises should avoid fictitious holding of assets immediately.
- Finance staff must be adequate with the modern scientific tools used for the presentation and analysis of data.
- Lastly, this study has suggested optimizing its level of investment because both of these situations will erode the efficiency of concern.

Bhatta (2011), in his article, carried on the topic *“An Appraisal of Financial Position of Nepal Bank Ltd*” has given more emphasis on Nepalese financial market sector. He has mentioned the financial crisis occurred in China, Mexico, South Asia, Russian Federation Ecuador, Brazil and Argentina. This crisis affected all the economy by posing negative effects in the real output. He has also focused on Nepalese financial market, which is directly affected by the national and international events. The event that effected the most was September 11 incident in U.S.A, which had added more to the fragility in the global financial market. In present context in many part of world, the move towards liberalization is getting its momentum on one hand and the process of economic development is being threatened due to various unanticipated incidents on the other hand. He has defined the financial crisis as a description to financial markets in which adverse section and moral hazard problems become much more worse, so that financial markets are unable to efficiently channel funds to those who have the most productive investment opportunities.

Pradhan (2012), has presented "*The Working Capital Measures the Liquidity, a Glimse on Investment in Different Sectors*" it’s problems and prospects through his article. In his article, he has expressed that the deposit is the life blood of any financial institution, and be it commercial bank, finance company, co-operative or non-government organization. He also added, in consideration of 10 commercial banks and nearly three dozens of finance companies, that latest figure does produce a strong feeling that a serious review must be made of problems and prospects of deposit sector. Except few joint venture banks, other organization rely heavily on the business deposit receiving and credit disbursement. Moreover this study validates some of the findings of previous authors by way of examining the relationship between working capital management and profitability of the sample Indian FMCG firms ,thus ,adding substance to the existing developed by previous authors.

2.6 Review of Thesis

Besides the review of available books and research studies, a number of studies have been made by student of MBA and MBS relating to working capital management in different PEs and private companies of Nepal. This section will review some of those dissertations.

Sharma, D.R (2006), has done a research on *"A Study on Working Capital Management of Nepal Battery Co. Limited"*. Considering five year financial statement (i.e. balance sheet, profit and loss a/c and income statement, etc.), from 1994 to 1998. This study has used ration analysis as tools for the purpose of analyze working capital management in NBC Ltd. The major objectives of this study are to analysis the liquidity composition of working capital, assets utilizations and profitability position of NBC Ltd. This study also focuses on relationship between sales and different variables of working capital of NBC Ltd.

The Findings of this Study are as Follows

- The major component of working capital of NBC Ltd. are cash and bank balance, account receivable, inventory, miscellaneous current assets and inventory holds large portion of current assets. The proportion of current assets on total assets and fixed assets is increasing, it indicates that inventory in current assets is high with respect to its total assets and fixed assets.
- Inventory to total assets ration shows fluctuating trend and receivable to total asset position show increasing trend. The turnover position is in fluctuating trend and receivable conversion period and inventory conversation period is long which is unfavorable for the company.
- Values of current and quick ratios are found nearly equal to standard inefficiency in operation can be seen through wide different between gross profit margin and net profit margin and high level of operating ratio. This study has suggested the company to reduce the inventory level. This study recommends about receivable conversion period, which is necessary to reduce with concerning sales volume because reduction of this period may affect on sales volume. Lastly, this study mentions about operating cost, which must be reduced in proper way so that can maximize its profitability and shareholders return.

Narendra Bahadur Amatya (2007) carried out a research on the topic “An Appraisal of Financial Position of Nepal Bank Ltd”. The objectives of the study were to examine, analyze and to interpret the financial position of the bank. The main findings of the study are as follows:

- Regarding the liquidity management, the bank was in a better position. However, the bank had been following a uniform policy to finance current assets and current liabilities.
- The bank was successful in deposit collection but it had always adopted conservative and traditional credit policy.
- The trade and commerce advances were playing a major role in the credit composition of the bank. Although the reserve of the bank was increasing gradually, the reserve played a nominal role in credit expansion control.
- The major portion of investment of the bank was in government’s securities. The volume of transaction was high in all respects but the bank did not show higher ratio of profit, rather it showed a decreasing trend of profit.

Prabin Kumar (2009), has carried out a research on *“Working capital management of Pharmaceutical Industry of Nepal with Reference to Royal Drugs Limited”*. The study has used statistical as well as financial tools to analyze the statement of 2049/50 to 2054/2055. The main objective of this study is to analyze empirical testing affecting working capital of Royal Drugs Limited as well as to know whether adequacy of working capital depends upon the nature of financing current assets or not.

The major findings of this study are:

- It has used more long term sources of financing than short term sources and followed conservative working capital policy.
- The major components of current assets in Royal Drugs Limited are cash and bank balance, receivable, inventory. Among these current assets inventory holds largest portion of current assets.
- Company cannot efficiency utilize current assets and there is also inefficient management of receivable policy.

- Liquidity position is satisfactory whereas return position is not satisfactory due to negative return. This study has suggested that the company should determine appropriate financing sources. Company should reduce inventory and receivable level for adjusting with sales and .production level. To balance them company should improve marketing and credit policy.

Pathak, S (2010) has done a research on *"An Evaluation of Working Capital Management of Nepal Lube Oil Limited"*. The objectives of this study are to appraise the working capital management of NLO Ltd. and to study the relationship between sales and different variables of working capital. To achieve these objectives, this study has taken five year period and applied the secondary data.

The Major Findings of the Study are

- The growing tendency of investment over current assets could have adverse effects in NLO Ltd's wealth maximization goals in long run. The study has suggested that NLO Ltd should determine certain rate of return on investment and sales target should be set.
- The company should always concern about the current assets and current liabilities and regular check should make. It will control the excess and shortage of working capital of the company.
- The company should give attention to manpower planning and should avoid both under staffing and over staffing.

Shrestha, S.K (2011), Working capital and liquidity and management of bank of Kathmandu ltd,has the main objective to evaluate the working capital position and to throw tight on the importance of the proper management of working capital the bank. The specific objectives of the study are as follows:

a. To indicate liquidity position in current assets.
b. To point out the condition of current liabilities and assets.
c. To analyze the need to control investment in working capital.

d. To make suggestion about removing any obstacle in making decision regarding management of working capital and to point out alternating solution for maximizing profit.

The major findings of the study are:

a. On the basis of the research, the researcher came to the conclusion that the interest was the major source of income. From the analysis of the financial position of the BOKL from the year 2061/62 to 2065/66 the collection of deposits and loan investment are increasing satisfactorily and there are also increasing in operating profit.
b. Large amount of loans and advances are given out of total deposits .The BOKL net fixed assets covers very low portion of long term debt .In other words large portion of long term debt is used in current assets of the bank. Long term debt to net worth ratio of the bank is in satisfactory condition, This ratio also implies that the proportion of outsiders claim in total capitalization is higher in BOKL.
c. The research found that the operation efficiency of the bank is in satisfactory condition. Interest earned in comparison of total assets is not fair enough.Net profit earned in comparison to total assets is relatively low. The bank has been earning 1.83 percent on its total assets during the study period .The researcher found that the EPS of the bank is quite good as its average stands at 46.38 percent.

Poudel S. (2012) has carried out his thesis entitled *"A study on working capital management of Diary Development Corporation"*. The main objective of the study is to appraise the working capital management of DDC and to study the relationship between sales and different variables of working capital. To achieve these objectives, he has taken five years study period and applied the secondary data. The major findings of his study are as follows,

- Many research studies have been conducted by the different students, experts and researchers about working capital management. Some studies are related to case study of a single company and some are comparative in nature.
- The financial and statistical tools of used by most of the researcher were ratio analysis and primary tools have not been used by many researches.

- This research will include different tools like ratio analysis, correlation analysis, regression analysis and interview as a primary tool of analysis, correlation analysis, regression analysis and interview as a primary tool of analysis, regression and interview are the specific tools used in this research.

2.7 Research Gap

This study has suggested that the company should determine appropriate financing sources. Company should reduce inventory and receivable level for adjusting with sales and .production level. To balance them company should improve marketing and credit policy. The low liquidity ratios of both the banks suggest that they should enhance their liquidity position by keeping optimum current assets. Both the banks had low average turnover on total deposits which is less than one.

Thus, the previous studies cannot be unobserved because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. Here, it is clear that the new research cannot be found on that exact topic, i.e.; a comparative study on working capital of commercial banks in Nepal. Therefore, to fulfill this gap, this research is selected. As to research gap is concerned, there are many changes taken place in the working capital management of commercial banks in Nepal as compared to the last five years. The most of the studies has been considered many more objectives which made their study more complicated but in this research report only three objectives are taken into study. Secondary data is considered in this research. Both financial as well as statistical tools like of Liquidity ratios, Quick Ratio, Profitability ratio, mean, standard deviation, coefficient of variance, correlation and probable error are used in this research. Almost all the ratios have been applied to cover the analytical part and fulfill the objective of this study. It involves more recent data of commercial banks for five years (2007/08 to 2011/12).

CHAPTER- III
RESEARCH METHODOLOGY

3.1 Introduction

This is the third chapter of the thesis, named as Research Methodology. Research methodology is the way to fulfill the research objectives systematically. The research methodology considers the logic behind the methods used in the context of research study and explains why particular method or technique is used. It also highlights about how the research problem has been defined, what data have been collected, what particular method has been adopted, why the hypothesis has been formulated etc. (Joshi, P.R.; 2002: 19).

This chapter describes the methodology employed in the study. It consists of research design, population and sample study, sources of data, data processing procedure and technique of analysis of data. This study is more analytical and empirical. It covers quantitative methodology using financial and statistical tools. The study is mainly based on secondary data gathered from respective annual reports of concerned banks, especially from profit and loss account, balance sheet and other publications published by the bank.

3.2 Research Design

Research design is a plan structure and strategy of investigation conceived so as to obtain answer to research questions and to fulfill the objectives. It is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure. It means an overall framework or plan for the collection and analysis of data. The study aims to portraying accurately upon the working capital and its impact on overall financial performance of these two banks. The research design followed for this study is basically a historical, empirical and descriptive cum analytical research method is followed.

3.3 Population and Sample

In Nepal, there are 31 commercial banks in existence till the date. Among them few are government owned banks, few are joint venture banks and the others are private banks. To carry out the study, NCC Bank and Everest Bank Ltd. have been taken as a sample for the study. Financial statements of five years from 2007/08 to 2011/2012 have been taken as sample data.

The total number of commercial banks =31

The sample size of commercial banks =2

Percentage of Sample size $= \frac{2}{31} \times 100 = 6.451$

3.4 Nature and Sources of Data

This study is conducted on the basis of secondary data relating to working capital .Data collected by someone else, used already and are made available to others in the form of published statistics are known as secondary data. Further, the directives issued by NRB have also been taken as the secondary source of data. Similarly, various data and information are collected from the periodicals, economic journals, managerial magazine and other published and unpublished reports and documents from various sources. Besides these, the annual report of Nepal Rastra Bank has also been equally reviewed.

3.5 Data Processing Procedure

Data are analyzed by using simple methods so that it would be easy to understand. The obtained data are presented in various tables, diagrams and charts that will definitely help to reach towards meaningful interpretations of the presented data. For convenience, the calculations that cannot be shown in the body part of the report are presented in the appendices section.

3.6 Data collection Technique

The study is mainly based upon secondary data as well as primary data the data relative to financial performance and directly obtained from concerned banks. The supplementary data performance records of concerned banks, booklets, journals and other organization.

Data are collected through annual report, minutes and memorandum of association relative websites and several organizations. Concept paper made by few organizations, newsletters, bulletin and advertising material also helped in collection of data for the study. Similarly methods like surfing in website and personal visit to bookshops is also used for the collection of data and information.

3.7 Method of Data Analysis and Interpretation

The collected data through various instruments and sources have been edited, coded, processed, analyzed and tabulated using simple financial and statistical methods. Major findings were based on the analysis and interpretation of data. The major data analysis tools used for the analysis and presentation of data are as follows:

3.7.1 Financial Analysis Tools

Financial ratios are useful indicators of a firm's performance and financial situation. Financial ratios are calculated to ascertain the financial condition of the firm. It is the relationship between financial variables contained in the financial statement. Most ratios can be calculated from information provided by the financial statements. Most ratios can be calculated from information provided by the financial statements. Financial ratios can be used to analyze trends and to compare the firm's financials to those of other firms. In some cases, ratio analysis can predict future bankruptcy. It helps the related parties to spot out the financial strength and weakness of the firm. The related parties may be creditors, long term debt suppliers, investors and the company's management. it is the process of summarizing large quantity of financial data and making qualitative judgment about the firm's financial data and making qualitative judgment about the firm's financial performance. In the research study various financial tools are employed for the analysis. There are various ratios but in this study some selected ratios among them are used.

A. Liquidity Ratios

One of the main objectives of working capital management is keeping sound liquidity position. Cash is a main liquid asset and other assets which can be easily converted into cash are also called near cash or liquid assets. So managing or maintaining liquid assets is termed as liquidity. In banking sector liquidity is very essential for smooth operation of day to day activities. Thus liquidity is concerned with maintaining adequate liquid assets. The followings are the liquidity ratios:-

a. Current Ratio

Current assets Working capital by current liabilities from the most recent quarter. The current ratio is a measure of the firm's immediate financial health and it's ability to meet current obligations. Generally, the current ratio should be 2:1 or higher; the higher the current ratio, the more conservative the firm, although a high current ratio can mean less profitability than a competing firm with a leaner current ratio. Also, like so many ratios, this one can vary by industry. Restaurant companies, for example, often have current ratios of less than 1:1, but since there is usually a delay between payment for services (which is immediate) and payments to vendors, who typically grant credit, this low ratio raises few eyebrows.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current liabilities}}$$

b. Quick Ratio

The sum of cash and receivables are from the most recent quarter Working capital by the total current liabilities from the most recent quarter. This assessment of a company's ability to meet short-term obligations is also known as the acid test. In general, the quick ratio should be 1 or better. A high quick ratio is usually a sign of a solid, conservatively run company in no danger if imminent demise even if for some awful reason sales immediately ceased. A firm's quick ratio might be of special interest to investors anticipating some kind of downturn in the firm, business or the economy at large.

$$\text{Quick Ratio} = \frac{\text{current assets} - \text{inventory} - \text{Prepaid expenses}}{\text{Current Liabilities}}$$

C Cash and Bank balance to Deposits (Excluding fixed Deposits)

This ratio shows the ability of banks immediate funds to cover their (Current, margin, call and saving) deposits. It can be calculated by dividing cash and bank balance by deposits (excluding fixed deposits). The ratio can be expressed as:

$$\text{Cash \& bank balance to Deposit} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

D Saving Deposit to total Deposit

Saving deposit is a bearing short term deposit. The ratio is developed in order to find out the proportion of saving deposit, which is interest bearing and short term in nature. It is calculated by dividing the total amount of the saving deposit by the amount of total deposit that can be expressed as follows:

$$\text{Saving Deposit to Total Deposit Ratio} = \frac{\text{Saving Deposit}}{\text{Total Deposit}}$$

E. Absolute Liquidity Ratio

Although current assets like receivable, marketable securities etc. can be changed into cash as required. It takes time to be changed. It means it is not absolute liquid. The absolute liquidity ratio measures the liquidity of a firm in absolute term. It is calculate by dividing cash by current liabilities.

$$\text{Absolute liquid ratio} = \frac{\text{Cash}}{\text{Current Liabilities}}$$

i. Activity Ratio/ Turnover Ratio

Activity Ratios are intended to measure the effectiveness regarding the employment of the resources in a business concern. These ratios reveal whether the funds employed have been used effectively in the business activities or not. The following are the ratios employed to analyze the activeness of the concerned joint ventures.

This ratio assesses, to what extent the bank is able to utilize the depositors' funds to earn profit by providing loans and advances. It is computed by dividing the total amount of loans and advances by total deposit funds. The ratio is computed as:

$$\text{Loans and advances to total deposit ratio} = \frac{\text{Loans and Advances}}{\text{Total deposits}}$$

High ratio is the symptom of higher or proper utilization of funds whereas low ratio is the signal of underutilized or idle funds.

ii Loan and advances to Fixed Deposit Ratio

The ratio indicates what proportion of fixed deposits has been used for loans and advances. Loans and advances are the major sources of investment to generate income by the commercial banks. Fixed deposits are long-term interest-bearing obligation. It carries high rate of interest. Funds collected are needed to invest in such sectors, which yield at least sufficient return to meet the obligations. The ratio measures the extent to which the fixed deposits are utilized for the income generating purpose. High ratio means utilization of fixed deposit in form of loans. The ratio is calculated by dividing loans and advances by fixed deposits.

$$\text{Loans and Advances to Fixed Deposits Ratio} = \frac{\text{Loans \& } Advances}{\text{Fixed Deposit}}$$

iii Loan and Advance to Saving Deposit Ratio

The ratio indicates how many times the short-term interest bearing deposits are utilized for generating the income. Saving deposits are the short-term interest bearing liabilities. Loans and advances are the major sources of investment to generate income in commercial banks. Loans and advances to saving deposits ratio is measured to find out how many time of fund is used in loan and advances against saving deposit. High ratio indicates greater utilization of the saving deposits in advancing loans. The ration is calculated dividing the amount of loan and advances by total deposit in saving account. The following formula is used to calculate this ratio as:

$$\text{Loans and advances to saving deposit ratio} = \frac{\text{Loans \& } Advances}{\text{saving deposits}}$$

iv Investment to Total Deposit Ratio

The ratio shows how efficiency the major resources of the bank have been mobilized. High ratio indicates managerial efficiency regarding the utilization of deposits. Low ratio is the result of less efficiency in use of funds. The ratio is obtained by dividing investment by total deposits collected in the bank.

$$\text{Investment to Total deposit ratio} = \frac{\text{Total investment}}{\text{Total deposit}}$$

Investment comprises investment its HMG treasury bills, development bonds, company shares and other type of investment.

D Profitability Ratio

Profitability ratios offer several different measures of the success of the firm at generating profits. It indicates of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. Through profitability ratios the lender and investors want to decide whether to invest in a particular business or not. Some of the important profitability ratios used is as follows:

i Interest Earned to Total Assets Ratio

Interest Earned to Total Assets Ratio formed to find out the percentage of the interest earned investing total assets. This ratio can be calculated by dividing the amount of interest earned by the total assets of the firms. It can be expressed as:

Interest Earned to Total Assets Ratio = $\frac{\text{Interest Earned}}{\text{Total Assets}}$

ii Net Profit to Total Assets Ratio

This ratio is very much crucial for measuring the profitability of funds invested in the bank's assets. It measures the return on assets. It can be calculated by dividing the net profit after tax by total assets. It can be expressed as:

Net Profit to Total Assets Ratio = $\frac{\text{Net Profit}}{\text{Total Assets}}$

iii Net Profit to Total Deposit ratio

This ratio is used for measuring the internal rate of return from deposits. It is computed by dividing the net profit by total deposits. This can be expressed as:

Net Profit to Total Deposit Ratio = $\frac{\text{Net Profit}}{\text{Total Deposit}}$

Higher ratio indicates the return from investment on loans and advances are desirable and lower ratio indicates the funds are not properly mobilizing.

E Total interest expenses to Total Interest income Ratio

The ratio shows the percentage of interest expenses incurred in relation to the interest income realized. Lower ratio is favorable from profitability point of view. The ratio is obtained by dividing total interest expenses by total interest income.

$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Total interest expenses}}{\text{Total Intrest Income}}$$

Total interest expenses consist of interest expenses incurred for deposits, borrowing and loans taken by the bank. Total interest income includes interest income received from loans, advances, cash credit, overdrafts and government securities, inter- bank and other investments.

Statistical Tool Used

Statistical methods are the mathematical techniques used to facilitate the analysis and interpretation of numerical data secured form groups of individuals or groups of observations from a single individual. In this research study some statistical tools are also used for analysis. Those tools are as follows:

Correlation

Correlation is the statistical tool that refers the closeness of the relationship between two or more variables. We can use correlation to describe the degree to which one variable is linearly related to other variables. The coefficient of correlation deals to determine the degree of relationship between two or more sets of figures. Among the various method of finding out coefficient practice for calculating correlation .

$$r = \frac{\sum x_1 x_2}{\sqrt{\sum {x_1}^2 \sum {x_2}^2}}$$

Where,

r = Correlation coefficient

$\sum x_1$ = $X_1 - \overline{X}_1$

$\sum x_2$ = $X_2 - \overline{X}_2$

Under this topic, Karl Pearson's correlation coefficient is used to measure the degree of relationship between the following variables.

- Co-efficient of correlation between total deposit and total credit.
- Co-Efficient of correlation between interest income and interest expenses.
- Co-efficient of correlation between total deposit and total investment.

The interpretation of calculated valve of correlation coefficient by following way.

- If $r = 0$, then there is no correlation between variables.
- If $r > 0$, then there is positive correlation between variables.
- If $r < 0$, then there is negative relation between variables.
- If $r = +1$, then there is perfect positive correlation.
- If $r = -1$, then there is perfect negative correlation.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The data collection from the various sources have been presented and analyzed in this chapter. Since the conclusion to be drawn and the recommendation to be made from this study are based on the presentation and interpretation of data analyzed here. This chapter constitutes the main part of this study. The presentation and analysis of data measures the various dimensions of the problems of the study. The major objective of the study is a comparative study of working capital management of Everest Bank Ltd & Nepal Credit and Commerce Bank Limited. The major variables of the study are cash and bank balance, loans and advances, investment in government securities, borrowing, deposit, bills payable etc. In this chapter, relevant data and information of working capital as well as financial performance of Everest Bank Ltd & Nepal Credit and Commerce Bank Limited are presented, compared and analyzed accordingly. It covers to analyze the ratio as well as composition of current assets and current liabilities. Liquidity turnover, leverage and profitability of these banks. It also uses correlation analysis.

The entire figure presented here are in rupee. The data presented herein are pertained to 2007/08 to 2011/012 of each year and the data presented herein are based on the amount mentioned in the annual report of respective years of concerned banks and journals of Nepal Rastra Bank.

4.2 Composition of Current Assets

To operate the business, different kinds of assets are required. The composition of the current assets differs from organization to organization. According to nature of the business and the attitude of the management towards risk. The firm, which has risk advert management, maintains the high liquidity assets in total working capital. The organization aims to maximize return on shareholder investment, should earn sufficient return from its operation. So every firm has to maintain the appropriate level of current assets according to their nature of business and attitude of management to run the business smoothly.

This study is based on the working capital management Current Assets are the determinates of working capital. The compositions of various Current Assets for the study period of selected banks are analyzed here. Cash and bank balance, loan and advance (Performing loan, Bill receivable and money at call), Government sector investment (Treasury bills only), and miscellaneous current assets are included in current assets.

Table: 4.1

Composition of Current Assets of Everest Bank Ltd.

Year	Cash & Bank Balance	%	Loans & Advance	%	Govt. sector Investment	%	Misc. C.A.	%	TCA
2007/08	1,552,967,494	10.35	9,945,178,766	66.31	3,322,443,166	22.15	178,007,850	1.19	14,998,597,276
2008/09	2,391,420,594	11.94	13,804,640,404	68.91	3,614,541,127	18.04	222,660,004	1.11	20,033,262,129
2009/010	2,667,971,830	10.62	18,850,337,163	75	3,237,977,740	12.88	376,215,468	1.5	25,132,502,201
2010/011	6,164,371,163	18.06	24,096,211,924	70.61	3,371,428,601	9.88	492,166,151	1.45	34,124,177,839
2011/012	7,818,815,003	20.09	27,822,153,656	71.48	2,745,277,980	7.05	536,187,696	1.38	38,922,494,335
Mean		14.21		70.46		14		1.33	

Source: Annual Report of Everest Bank Limited

Figure: 4.1

Percentage Composition of CA of Everest Bank Ltd.

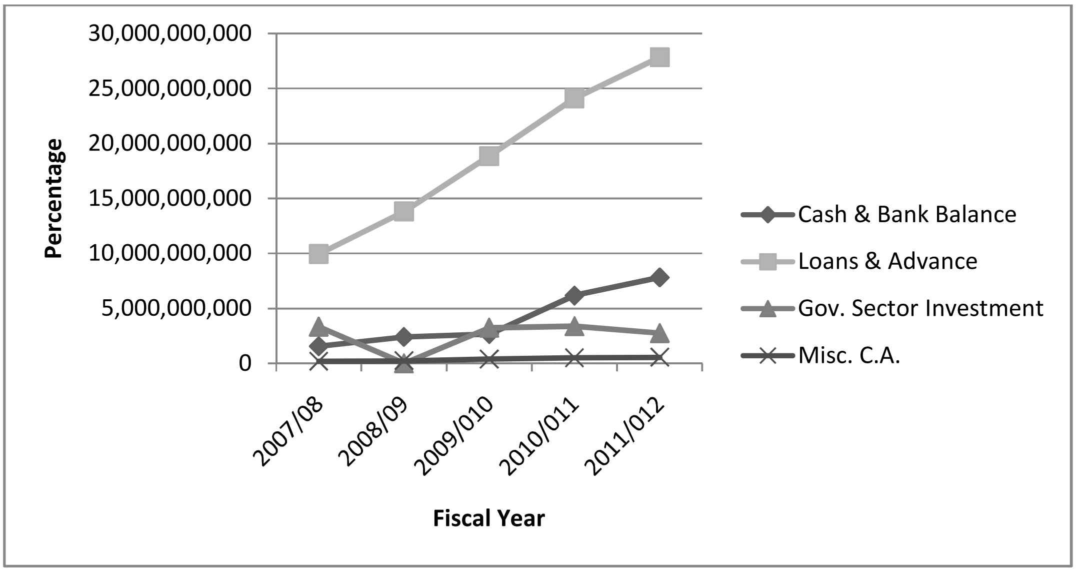


Table: 4.2

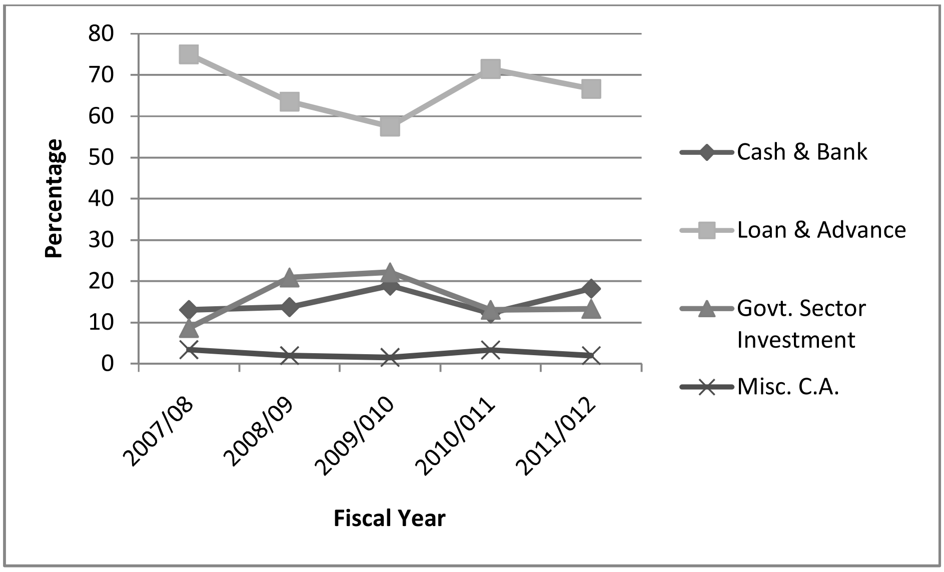
Composition of Current Assets of Nepal Credit and Commercial Bank Limited

Year	Cash & Bank	%	Loan & Advance	%	Govt. Sector Investment	%	Misc. C.A.	%	TCA
2007/08	783,956,470	13.03	4,514,517,490	75.0	516,8920,35	8.59	203283948	3.38	6,018,649,943
2008/09	758,163,455	13.69	3,517,118,517	63.50	1,155,269,000	20.86	107,795,523	1.95	5,538,346,495
2009/010	1,477,833340	18.90	4,496,033,901	57.49	1,730,893,743	22.13	116,452,621	1.48	7,821,213,605
2010/011	1,187,004,938	12.18	6,967,667,611	71.48	1,269,254,840	13.02	323,712,160	3.32	9,747,639,549
2011/012	2,196,347,910	18.17	8,051,387,086	66.60	1,603,616,773	13.26	238,277,215	1.97	12,089,628,984
Mean		15.19		66.81		15.57		2.42	

Source: Annual Report of Nepal Credit and Commercial Bank Limited

Figure: 4.2

Percentage of Current Assets of Nepal Commerce and Credit Bank Limited



From the above tables it can be concluded that the total current assets of Everest Bank Limited has increased continuously during the study period. The total current asset of NCC Bank Limited has decreased in 2008/09 than 2007/08. After that the total current assets of NCC Bank Limited has also increased continuously. The highest portion in current assets is loan and advances for both banks.

Cash and Bank Balance Percentage

Cash and bank balance percentage of Everest Bank Ltd is gradually increased over first two study periods. The lowest percentage is in first year of the study period with 10.35% and dramatically increased in 2010/11 in comparison of 2009/10 with 18.06 %.After onwards, It is highest in the fifth year. i.e., 20.09% . The average cash and bank balance percentage of Everest bank ltd is 14.21%.

The cash and bank balance percentage of NCC Bank limited in 2007/08 is 13.03% and is increased up to 18.90% in 2007/08. Again it decreased to 12.81% in 2010/11. In 2011/12 it became 18.17%. The average cash and bank balance percentage is 15.19% during the study period.

Loan and Advance Percentage

In the case of Everest Bank ltd, loan and advances percentage had increased gradually till third year and after third year decreased in fourth year and again increased fifth year of the study period with 71.48%. It is highest in the year 2009/010 i.e., 75 % and lowest in the year 2007/08 i.e., 66.31 %. The average loans and advances percentage is 70.46%. the loans and advances percentage of Everest Bank Ltd, in the year 2007/08, 2008/09 and 2010/011 are less than the average i.e., 70.46%. But in the year 2009/010 and 2011/012 the loans and advances percentage are higher than the average, 75%, and 71.48%.

In case of NCC Bank Limited, the average percentage during the study period is 66.81% the highest percentage in 2007/08 i.e. 75% and lowest in year 2009/10 i.e. 57.49%. It is decreasing in second and third year then first year. It increased in fourth year and again it decreased in fifth year.

Government Securities Percentage

The percentage of Government Securities of Everest Bank ltd is in decreasing trend. It is decreasing till fifth year, i.e., 2011/012. The average percentage of government securities of the bank is 14%. it is higher than its average government securities percentage of initial two years i.e. 22.15% and 18.04% and it is lower than its average government securities percentage of last three years of the study period. i.e., 12.88%, 9.88% and 7.05%.

Govt. securities percentage of NCC Bank Limited is fluctuating over the study period. It is highest in 2009/10 i.e. 22.13% and lowest in 2007/08 i.e. 8.59 %. The average percentage of govt. securities is 15.57% during the study period. It is less than average in 2007/008, 2010/11 and 2011/12 i.e. 8.59%, 13.02% and 13.26% and more than average in 2008/09and 2009/10 i.e. 20.86% and 22.13%.

Miscellaneous Current Assets Percentage

From the table 4.1, we know that Everest Bank ltd is investing lesser amount in miscellaneous current assets in comparison to other components of current assets over the study period. It is in range between 1.11% & 1.5% . The average miscellaneous current asset is 1.33%. The yearly percentage of miscellaneous current assets is higher than its average percentage in the year 2009/010,2010/011& 2011/012 i.e. 1.50%, 1.45% & 1.38% and it is lower than its average percentage in the year 2007/08 & 2008/09 i.e, 1.19% & 1.11% . The investment in miscellaneous current assets is stable in comparison to other components of current assets.

Miscellaneous current assets percentage of NCC Bank Limited is fluctuating during the study period. The highest percentage is in 2007/08 i.e. 3.38% and lowest is in 2009/10 i.e. 1.48%. The average miscellaneous current assets percentage is 2.42%. The yearly miscellaneous current assets percentage is higher than average in 2007/08 and 2010/11 i.e. 3.38% and 3.32% and lower than average in 2008/09,2009/10 and 2011/12 i.e. 1.95%, 1.48% and 1.97%.

Composition of Current Liabilities

Current liabilities are those liabilities that the firm should pay within short time period. Current liabilities include loan and advances, sundry creditors, provision for taxation, miscellaneous current liabilities, etc. A firm should maintain an optimum level of liquidity in order to enable the organization to meet the current obligation of the firm. A firm has to raise funds from short term obligation. Short term sources of funds are raised through different components of current liabilities according to requirement. But the proportion of different components of current liabilities depends upon the financial policy of the firm. Thus, the composition of current liabilities must be analyzed for proper management of working capital.

For this study borrowings, deposit (excluding fixed deposit) Bills, payable and miscellaneous current liabilities (Proposed dividend, tax liability and other liabilities) are included in current liabilities.

Table: 4.3

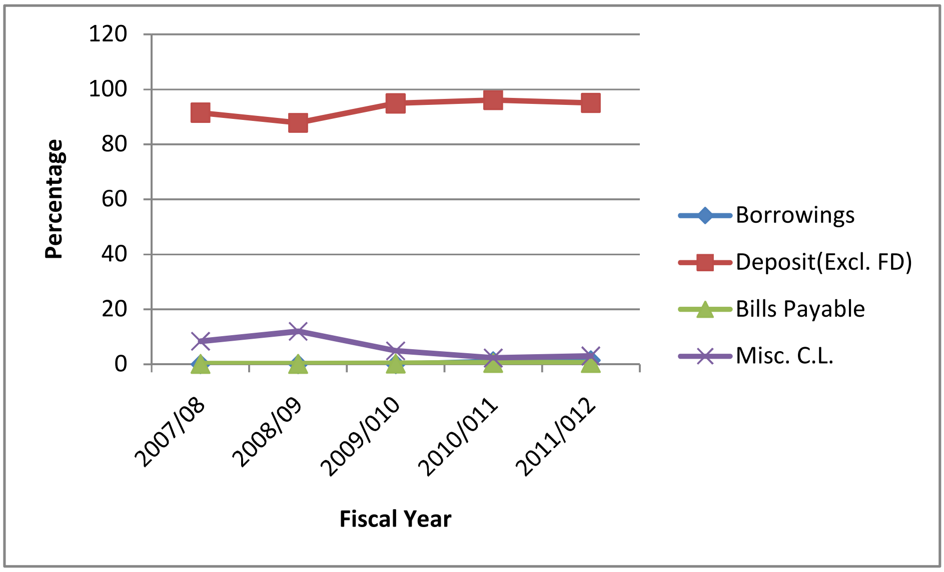
Composition of Current Liabilities of Everest Bank Ltd.

Year	**Borrowings**	**%**	**Deposit(Excl. FD)**	**%**	**Bills Payable**	**%**	**Misc. C.L.**	**%**	**TCL**
2007/08	-	0	9,560,093,219	91.45	15,805,995	0.15	878,225,403	8.40	10,454,124,617
2008/09	-	0	12,559,591,824	87.80	26,776,480	0.19	1,718,029,013	12.01	14,304,397,317
2009/010	-	0	17,530,117,246	94.85	49,429,700	0.27	902,377.069	4.88	18,481,924,015
2010/011	312,000,000	1.14	26,272,968,016	96.02	148,655,592	0.54	629,621,761	2.30	34,413,223,599
2011/012	404,600,000	1.45	26,492,031,414	95.01	145,514,679	0.52	841,198,169	3.02	27,883,344,262
Mean		0.52		93.03		0.33		6.12	

Source: Annual Report of Everest Bank Limited

Figure: 4.3

Percentage of CL of Everest Bank Ltd.



In the above table, we can see total amount of current liabilities components of Everest bank ltd. Total amount of current liabilities components of Everest bank has increased from beginning till fourth year of the study period but it is decreased in fifth year.

Table: 4.4

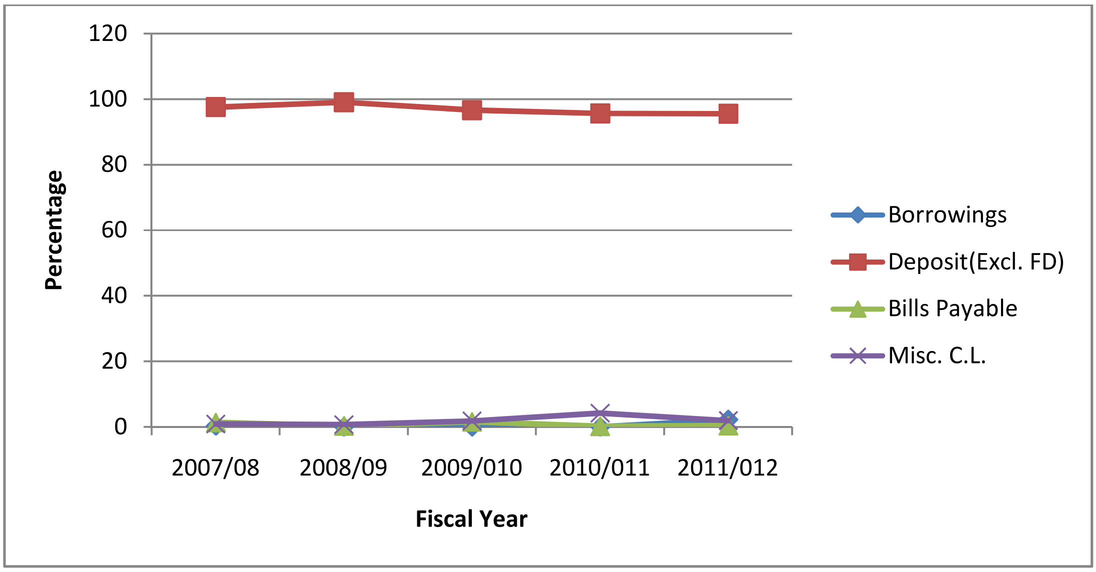
Composition of Current Liabilities of Nepal Credit and Commerce Bank Limited

Year	**Borrowing**	**%**	**Deposit (Excl.FD)**	**%**	**Bills Payable**	**%**	**Misc. C.L.**	**%**	**TCL**
2007/08	1,360,000	0.28	4,696,671,991	97.57	63,604697	1.32	39,951,014	0.83	4,813,827,702
2008/09	-	-	4,763,762,693	99.03	14,508,617	0.30	32,160,460	0.67	4,810431775
2009/010	-	-	6,811,751,501	96.65	110,170,952	1.56	125,843,879	1.79	7,047,766,332
2010/011	-	-	7,982,201,580	95.64	15,374,778	0.18	348,802,817	4.18	8,346,379,175
2011/012	206900000	2.22	8,922,429,249	95.57	30,652,414	0.33	176,121,908	1.88	9,336,103,563
Mean		0.50		96.89		0.74		1.87	

Source: Annual Report of Nepal Credit and Commercial Bank Limited

Figure: 4.4

Percentage of Current Liabilities of Nepal Credit and Commerce Bank Limited



The total current liabilities of NCC Bank are quite similar in first two year of the study period with 0.83 and 0.67. It is highest in 2010/11 with 4.18% and lowest in 2007/08 .

Borrowing Percentage

In the year 2007/08, 2008/09 and 2009/010, the Everest Bank did not borrow any money and then after it increased till the last year of the study period. It is highest in the last year, i.e.1.45% and lowest in the year 2010/011, i.e.1.14%. the average borrowing percentage of Everest Bank ltd, is 0.52%.

The NCC Bank Limited has 0.28% borrowing in 2007/08. The bank does not have borrowing in 2008/09,2009/10 and 2010/11. Again in the year 2011/12the bank has 2.22% borrowings. The average borrowing percentage is 0.50.

Deposit (Excluding Fixed Deposit) Percentage

The deposit (excl.FD) percentage of Everest Bank Ltd is fluctuating. The highest percentage is 96.02% in the year 2010/11 and lowest is 87.80% in 2008/09. The average percentage is 93.03% for the study period.

In NCC Bank Limited the percentage of deposit (excl.FD) is increased in 2008/09 than 20007/08 then after it is decreased till last year. The highest percentage is 99.03% in 2008/09 and lowest is 95.57 in 2011/12. The average percentage of deposit (excl. FD) is 96.89% for the study period.

Bills Payable Percentage

The bills payable percentage of Everest Bank Limited is increased till 2010/11 and reached to 0.54 but in the last study period it become 0.52 % The average bills payable percentage is 0.33% for the study period. It is highest in the year 2010/11 i.e. 0.54% and lowest is in 2007/08 i.e. 0.15%.

In NCC Bank Limited the bills payable percentage is fluctuating. The highest bills payable percentage is 1.56% in 2007/08. The lowest is in 2010/11i.e. 0.18 %. The average bills payable percentage is 0.74 during the study period.

Miscellaneous Current Liabilities Percentage

The above table shows that the miscellaneous current liabilities percentage of the Everest Bank Ltd is fluctuating all over the study period. It is increased up to second year and decreased in fourth year, then slightly increased in fifth year of the study period. It is highest in the year 2008/09 i.e.12.01% and lowest in the year 2010/011, i.e. 2.30% the average miscellaneous current liabilities percentage of Everest Bank Ltd is 6.12%.

In NCC Bank Limited the percentage of miscellaneous current liabilities is increasing till fourth year and decreased in fifth year. The highest percentage of miscellaneous current liabilities is 4.18% in 2010/11 and lowest is 0.67% in 2008/09. The average miscellaneous current liabilities percentage of NCC Bank Limited is 1.87% during the study period.

4.3 Ratio Analysis

Ratio analysis is the powerful financial tool to measure the financial performance of banks and finance companies comparatively. As mentioned in research methodology, liquidity, activity, profitability and leverage ratios are calculated.

4.3.1 Liquidity Ratio

Liquid assets are one that can be easily converted into cash without significant loss of its original value. Converting assets, especially current assets such as inventory and receivables, to cash is the primary means by which a firm obtains the funds needed to pay its current bills. Therefore a firm's liquid position deals with the question of how well the firm is able to meet its current obligations. Short term assets or current assets are more easily converted to cash than long term assets. So, in general, one firm would be considered more liquid than another firm if it has a greater proportion of its total assets in the form of current assets. Liquidity ratio measures the short term solvency position of the firm. Liquidity ratio that shows the relationship of a firm's cash and other current assets to its current liabilities. Under this there are two types of ratios.

Liquidity of any business organizations is directly related with working capital or current assets and current liabilities of that organization. In other words, one of the main objectives of working capital management is keeping sound liquidity position. Banks and finance companies are different organizations which are engaged in mobilizations of funds. So, without sound liquidity position, these institutions are not able to operate their functions. To measure the solvency position or ability to meet its short term obligations, various liquidity ratios are calculated.

4.3.1.1 Current Ratio

The current ratio is a measure of the firm's immediate financial health and its ability to meet current obligations in other words, current ratio represents a margin of safety, i.e. a "cushion" of protection for creditors and the higher the current ratio. Greater the margin of safety, larger the amount of current assets, in relation to current liabilities. Generally, the current ratio should be 2:1 or higher, the higher the current ratio, the more conservative the firm, although a high current ratio can mean less profitability than a competing firm with a leaner current ratio. Also like so many ratios. This one varies by industry. It is calculated as follows:

Current Ratio= current Assets/ current liabilities

The following table and chart show the current ratio to compare the working capital management of these financial institutions.

Table: 4.5

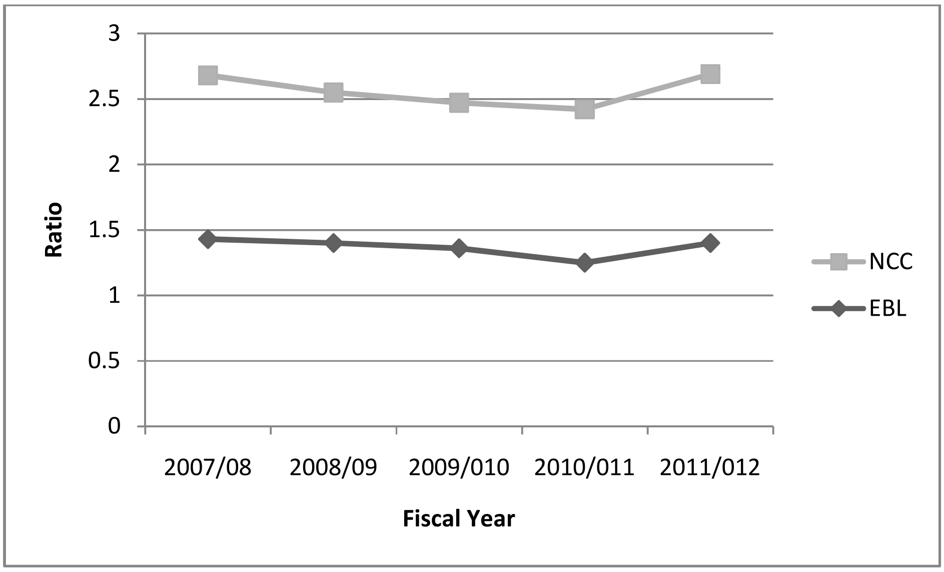
Calculation of Current Ratio

Year	Everest Bank Ltd.			NCC Bank Ltd.		
	C.A.	**C.L.**	**C.R.**	C.A.	C.L.	C.R
2007/08	14998597276	10454124617	1.43	6018649943	4813827702	1.25
2008/09	20033262129	14304397317	1.40	5538346495	4810431775	1.15
2009/010	25132502201	18481924015	1.36	7821213605	7047766332	1.11
2010/011	34124177839	27363245369	1.25	9747639549	8346379175	1.17
2011/012	38922434335	27883344262	1.40	12089628984	9336103563	1.29
Average			1.37			1.19

Source: Annual Report of Everest Bank and NCC Bank

Figure: 4.5

Current Ratio



The above table depicts that the current assets of Everest Bank is in increasing trend from 2007/08 to the last year of the study period. And the current liabilities of Everest bank Ltd, is also increasing till last year of the study period. The current ratios of Everest Banks are fluctuating. It is decreased in up to fourth year and then, it is increased in fifth year. The current ratio highest in the year 2007/08 i.e.1.43%. Lowest in the year 2010/011 i.e.1.25%. The average current ratio of the Everest bank is 1.37.

The current ratio of NCC Bank is fluctuating. The highest current ratio is 1.29 in 2011/12 and lowest is 1.11 in 2009/10. The average current ratio is 1.19 throughout the study period.

The Everest Bank Limited has highest average current ratio and NCC Bank limited has lowest average current ratio.

4.3.1.2 Quick ratio of the total quick assets

The assessment of a company's ability to meet short term obligations is also known as the acid test. Quick ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably without a loss of value of cash. Cash is the most liquid asset. Other assets, which are considered to be relatively liquid, are booked debts and marketable securities. In general, quick ratio should be 1 or higher. A high quick ratio is usually a sign of solid, conservatively run company which is no danger of imminent demise even if for some awful reasons, sales immediately ceased. A firm's quick ratio might be of special interest to investors anticipating some kind of downturn in the firm's business or the economy at large. The quick ratio can be found out by dividing total quick assets by total current liabilities.

Quick Ratio = Quick Assets/ Current Liabilities

For this study, cash and bank balance, government securities (treasury bills) and money at call are included in quick assets. The following table and chart show the quick ratio of Everest Bank and NCC Bank Ltd.

Table: 4.6

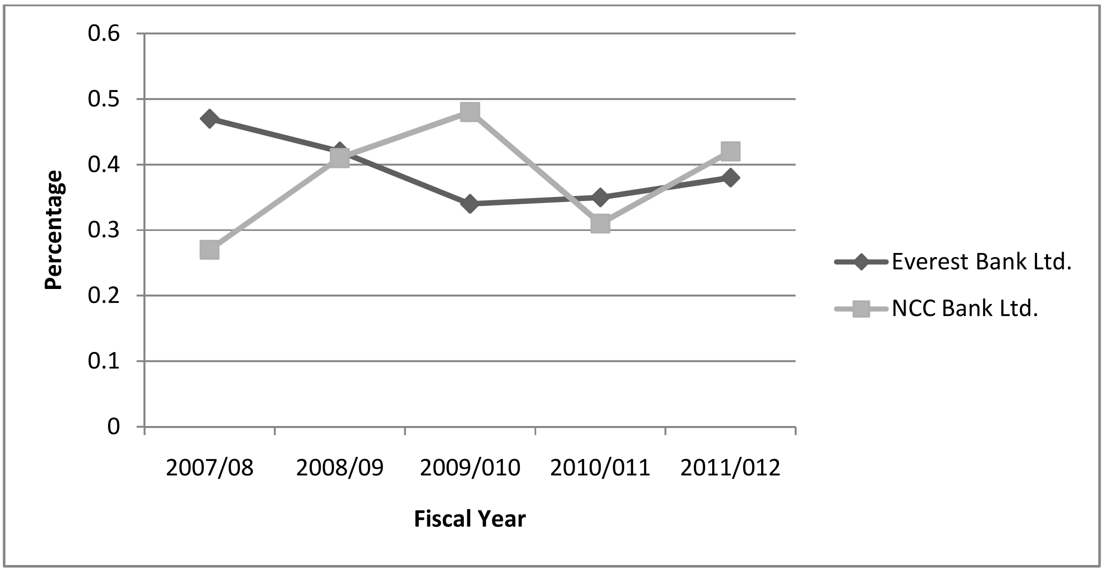
Calculation of Quick Ratio

Year	Everest Bank Ltd.			NCC Bank Ltd.		
	Q.A.	**C.L.**	**Q.R**	**Q.A**	**C.L.**	**Q.R**
2007/08	4,942,370,660	10,454,124,617	0.47	1,321,948,221	4,813,827,702	0.27
2008/09	6,005,961,721	14,304,397,317	0.42	1,989,097,143	4,810,431,775	0.41
2009/010	6,251,949,570	18,481,924,015	0.34	3,363,133,155	7,047,766,332	0.48
2010/011	9,535,799,764	27,363,245,369	0.35	2,582,661,599	8,346,379,175	0.31
2011/012	10,564,092,983	27,883,344,262	0.38	3,899,815,827	9,336,103,563	0.42
Average			0.39			0.38

Source: Annual Report of Everest Bank and NCC Bank

Figure: 4.6

Quick Ratio



The above table and figure depict that the quick ratios of Everest bank are always fluctuating over the study period. The quick ratio of Everest Bank is decreased up to fourth year, then increased in year 2011/12. It is highest in the year 2007/08 i.e., 0.47 and lowest at the year 2009/010 i.e.0.34. The average quick ratio in Everest is 0.39.

The quick ratio of NCC Bank is also fluctuating. The highest quick ratio is 0.48 in 2009/10 and lowest is 0.27 in 2007/08. The average quick ratio is 0.38 for the study period. The highest average quick ratio is of Everest Bank Limited i.e. 0.39 and NCC Bank Limited is 0.38.

4.3.1.3 Cash and bank balance to Total deposit ratio (without fixed deposit)

This ratio shows the ability of banks' immediate funds to cover their (current, margin, call and saving) deposits. It is employed to measure whether the bank and cash balance is sufficient to cover its current calls margin including deposit. It can be calculated dividing cash and bank balance by deposits (excluding fixed deposit). It can be expressed as:

Table: 4.7

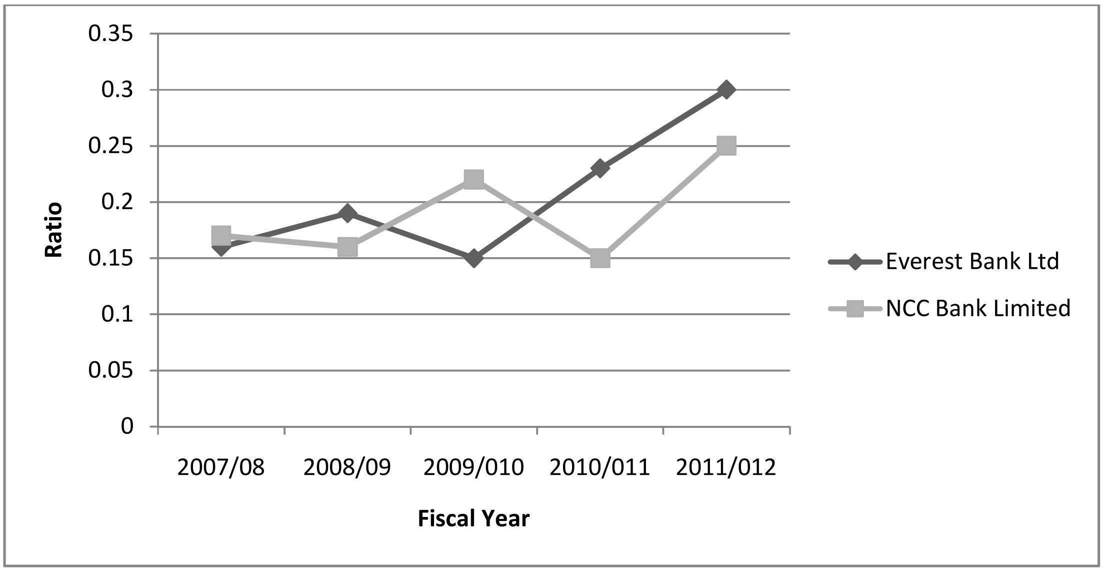
Calculation of Cash & Bank Balance to Total Deposit Ratio (Excl. Fixed Deposit)

Year	**Everest Bank Ltd.**			**NCC Bank Limited**		
	Cash & Bank Balance	**Deposit (exc. Fixed deposit)**	**Ratio**	**Cash & Bank Balance**	**Deposit (exc. Fixed deposit)**	**Ratio**
2007/08	1552967494	9,560,093,219	0.16	783956470	4696671991	0.17
2008/09	2,391,420,594	12,559,591,824	0.19	758163455	4763762693	0.16
2009/010	3,013,971,830	17,530,117,246	0.15	1477833340	6811751501	0.22
2010/011	6,164,371,163	26,272,968,016	0.23	1187004938	7982201580	0.15
2011/012	7,818,815,003	26,492,031,414	0.30	2196347910	8922429241	0.25
Average			**0.21**			**0.19**

Source: Annual Report of Everest Bank and NCC Bank

Figur: 4.7

Ratio of Cash & Bank Balance to Total Deposit Ratio (Excl. Fixed Deposit)



The above table and figure depicts that the cash and bank balance to deposit (excluding fixed deposit) ratios of Everest bank are increasing till the first two years, decreasing in third year and again increasing in the last two years of the study period. The ratio is highest in the year 2011/012, i.e. 0.30 and lowest in the year 2009/010, i.e.0.15 the average cash and bank balance to deposit (excluding fixed deposit) ratio of Everest Bank is 0.21.

The cash and bank balance to total deposit (excluding fixed deposit) ratio of NCC Bank limited is fluctuating for the study period. The highest ratio is 0.25 in 2011/12 and lowest is 0.15 in 2010/11. The average cash and bank balance to total deposit (excluding fixed deposit) ratio is 0.19.

4.3.2 Activity Ratio (Turnover Ratio)

Activity ratio is needed to measure the effectiveness of employed of the resources in a business concern. Activity ratio measures the effectiveness of the firm. Through these ratios, it is known whether the funds employed have been utilized effectively in the business activities or not. The following are the ratios, employed to analyze the activities of the concerned banks.

4.3.2.1 Loan and Advances to Total Deposit Ratio

This ratio assesses to what extent, the banks and finance companies are able to utilize the depositor's funds to earn profit by providing loans and advance. It is computed dividing the total amounts of loans and advances by total deposited funds. The formula used to compute this ratio is as follows:

Loan and Advances to Total Deposit Ratio= Loan and advances / Total Deposits

High ratio is the symptom of higher and proper utilization of funds and low ratio is the signal of balance remained utilized or idle.

Table: 4.8

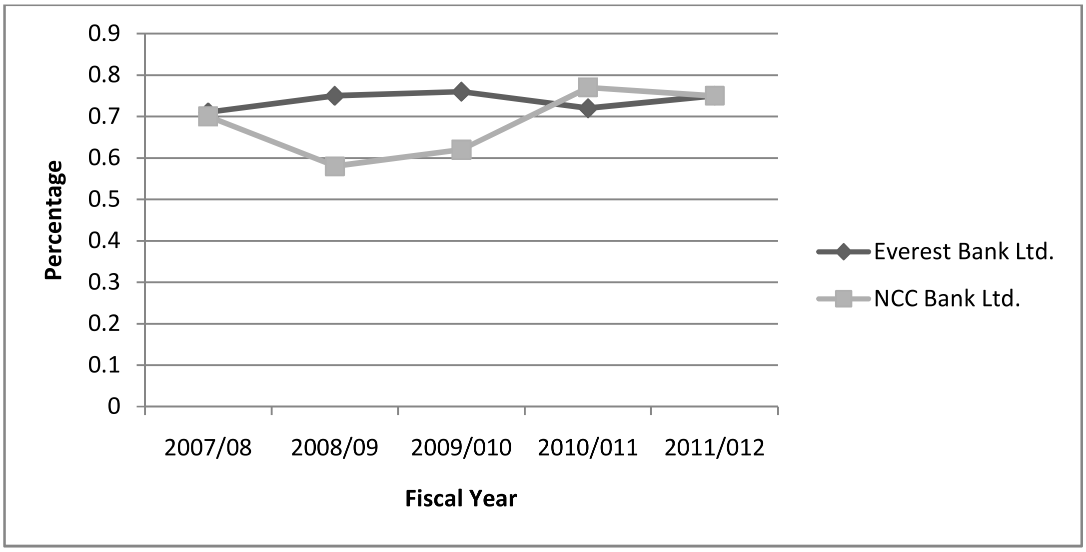
Calculation of Loan and Advances to Deposit Ratio

Year	Everest Bank Ltd.			NCC Bank Limited		
	Loan and advances	Deposit	Ratio	Loan and advances	Deposit	Ratio
2007/08	9801307676	13,802,444,988	0.71	4663787289	6619581479	0.70
2008/09	13664081664	18,186,253,541	0.75	3783307161	6500343387	0.58
2009/010	18339085562	23,976,298,535	0.76	4572263067	7620236470	0.62
2010/011	23884673616	33,322,946,246	0.72	7044595570	9127748924	0.77
2011/012	27556356032	36,932,310,008	0.75	8094669057	10824692558	0.75
Average			0.74			0.68

Source: Annual Report of Everest Bank and NCC Bank

Figure: 4.8

Ratio Loan and Advances to Deposit Ratio



The above table and chart depicts that loan and advances to total deposit ratios of EBL are fluctuating during the study period. It is increasing in second and third year, decreasing in forth year and again increasing in last year of the study period. The bank has the highest loan and advances to total deposit ratio in third year, i.e. 0.76 and the least in first year, i.e.0.71 But, the yearly amount of loan and advances to total deposit ratios are not much difference during the period of study. The average loan and advances to total deposit ratio of EBL, is 0.74.

The loan and advances to total deposit ratio of NCC Bank Limited is fluctuating throughout the study period. It is highest is in 2008/09 i.e. 0.77 and lowest is in 2006/07 i.e. 0.58. The average is 0.68 for the study period.

4.3.2.2 Loan and advances to fixed deposit ratio

This ratio examines that how many times the funds is used in loans and advances against fixed deposits. For commercial banks, fixed deposit are long term interests bearing obligations, whereas investment in loans and advances are the main sources of earning. This ratio is compared dividing loans and advances by fixed deposit as under:

Loan and Advances to Fixed Deposit Ratio = Loan and Advances/ Fixed Deposits

A low ratio indicates idle cash balance. It means total funds not properly utilized. This ratio examines to what extend the fixed deposits are utilized for income earning purpose.

Table: 4.9

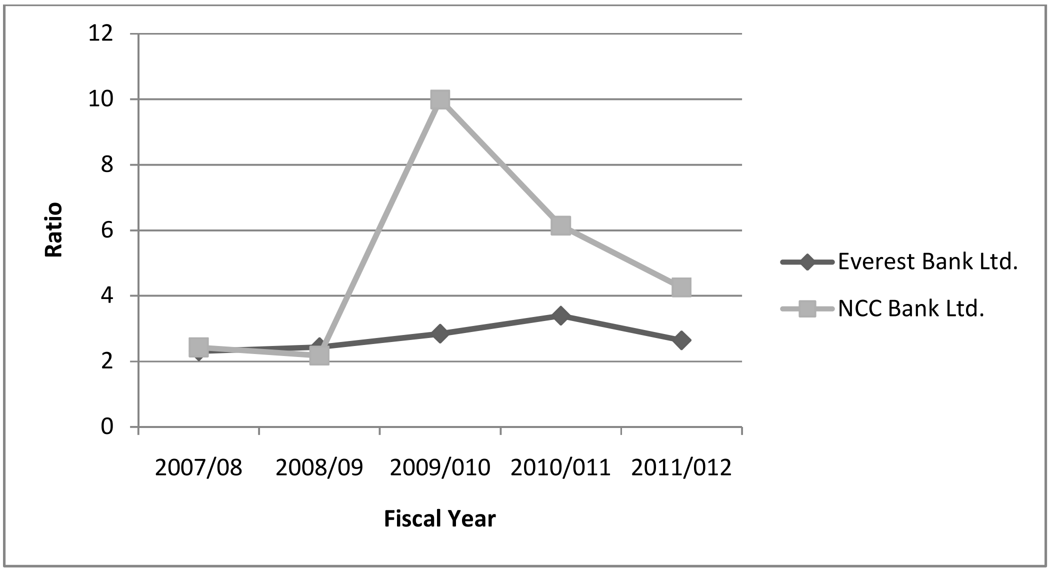
Calculation of Loan and Advances to Fixed Deposit Ratio

Year	Everest Bank Ltd.			NCC Bank Ltd		
	Loan and advances	**Fixed Deposit**	**Ratio**	**Loan and advances**	**Fixed Deposit**	**Ratio**
2007/08	9801307676	4,242,351,769	2.31	4663787289	1922909488	2.43
2008/09	13664081664	5,626,661,717	2.43	3783307161	1736580689	2.18
2009/010	18339085562	6,446,181,289	2.84	4572263067	508485969	9.99
2010/011	23884673616	7,049,978,230	3.39	7044595570	1145547344	6.14
2011/012	27556356032	10,440,278,594	2.64	8094669057	1902263309	4.26
Average			2.72			4.80

Source: Annual Report of Everest Bank and NCC Bank

Figure: 4.9

Ratio of Loan and Advances to Fixed Deposit Ratio



Fixed deposit of EBL, has increased in up to fourth year of the study period, it has gradually increased and again decreased in last year. Loan and advances to fixed deposit ratios are increasing gradually and became 3.39 in 2010/11. The average ratio of EBL is 2.72, which is greater than 2011/12 ratio. The loan and advance to fixed deposit ratio of NCC Bank Limited is fluctuating. The lowest ratio is 2.43 in 2007/08 and highest is 9.99 in 2009/10. The average ratio is 4.80. Among both banks the NCC Bank has highest average loan and advances to fixed deposit ratio i.e. 4.80. The Everest Bank Limited has average loan and advances to fixed deposit ratio is 2.72.

4.3.2.3 Loan and Advances to Saving Deposit Ratio

This ratio assesses how many times the fund is used to loans and advances against saving deposit. Saving deposits are interests bearing short term obligation and the major sources of investment in loan and advances for income generating purpose by bank. This ratio indicates how many times the short term interest bearing deposits are utilized for generating income. It is calculated by dividing the amount of loan and advances by total deposit in saving account. The following formula is used to calculate the ratio:

Loan and Advances to Saving Deposit Ratio= Loan and Advances/ Saving Deposits

Table: 4.10

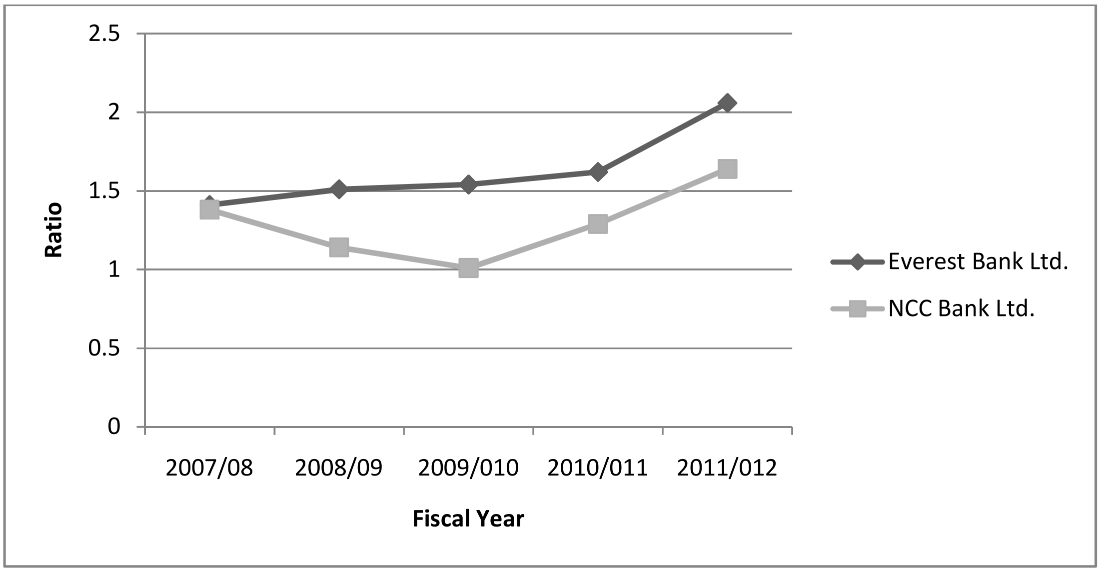
Calculation of Loan and Advances to Saving Deposit Ratio

	Everest Bank Ltd.			NCC Bank Limited		
Year	**Loan and advances**	**Saving Deposit**	**Ratio**	**Loan and advances**	**Saving Deposit**	**Ratio**
2007/08	9801307676	6,929,216,891	1.41	4663787289	3370329099	1.38
2008/09	13664081664	9,029,255,366	1.51	3783307161	3317316356	1.14
2009/010	18339085562	11,883,857,171	1.54	4572263067	4557294663	1.01
2010/011	23884673616	14,782,330,769	1.62	7044595570	5448553728	1.29
2011/012	27556356032	13,360,037,013	2.06	8094669057	4933279546	1.64
Average			1.63			1.29

Source: Annual Report of Everest Bank and NCC Bank

Figure: 4.10

Ratio of Loan and Advances to Saving Deposit Ratio



The above table depicts that the loan and advances to saving deposit ratios of EBL are increasing gradually of the study period. The ratio is highest in the last year, i.e.2.06, and lowest in the first year, i.e.1.41. The average ratio of EBL is 1.63. It is higher than the yearly ratio of first to fourth year and lower than the yearly ratio of the year 2011/012.

The loan and advances to saving deposit ratio of NCC Bank Limited was fluctuating over the period. The lowest loan and advances to saving deposit ratio is 1.01 in 2009/10 and the highest is 1.64 in 2011/12. Among the both banks the lowest average of loan and advances to saving deposit ratio is of NCC Bank Limited of 1.29. The EBL has an average of 1.63

4.3.3 Leverage Ratio or Capital Structure

Financial leverage ratios provide an indication of the long term solvency of the firm. Unlike liquidity ratios which are concerned with short term assets and liabilities, financial leverage ratios measure the extent to which the firm is using long term debt. Debt and equity are long term obligation and remaining parts in the liability side of the balance sheet are termed as short term obligations. Both types of obligation are required in forming the capital structure of the firm. The long term financial position of the firm is determined by the leverage or capital structure. The different leverage ratios are maintained to measure the financial risk or proportion of outsider's fund and owner's capital used by the firm. Following ratio is calculated under leverage ratio.

4.3.3.1 Long term debt to Shareholders Equity Ratio

It is used to test the long term solvency of a firm. The ratio indicates the relationship between debt and equity. It is related to shareholder's fund indicating the degree of protection against long term creditors. Here, long term debt refers to the amount of fixed deposit. It is calculated by dividing the fixed obligation of the banks by owner's claim.

Long term debt to Shareholder's Security = Long term Debt/ Shareholders Equity

The following table and chart shows the long term debt to net worth ratio of the both banks.

Table: 4.11

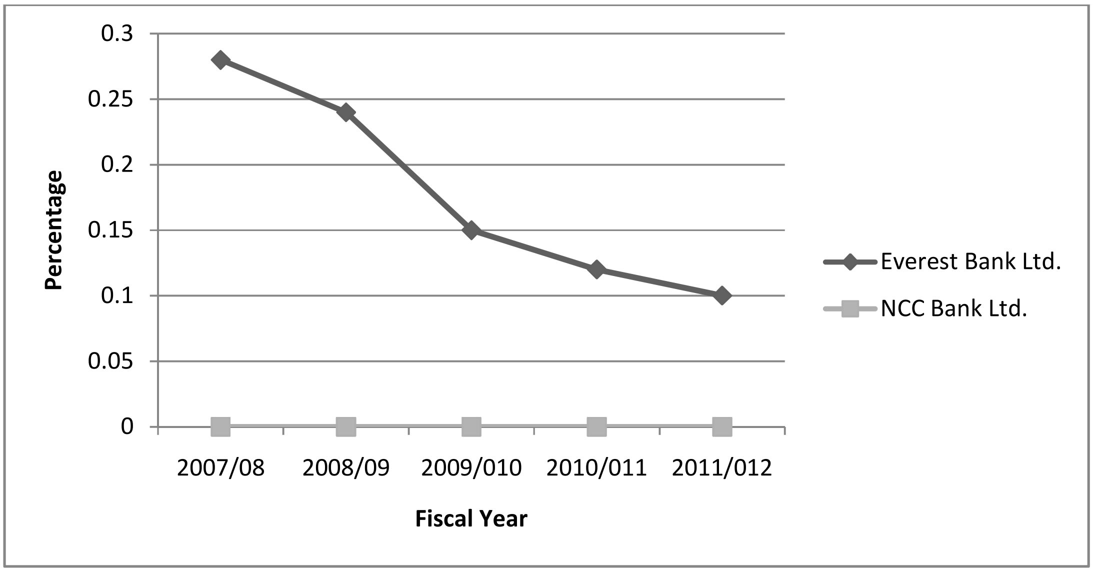
Calculation of Long Term Debt to Share Holders Equity

	Everest Bank Ltd.			**NCC Bank Limited**		
Year	**Long Term Debt**	**Shareholders' Equity**	**Ratio**	Long Term Debt	Shareholder equity	Ratio
2007/08	300,000,000	1,077,475,059	0.28	-	(309036859)	-
2008/09	300,000,000	1,269,661,589	0.24	-	(510336052)	-
2009/010	300,000,000	1,936,027,950	0.15	-	685083102	-
2010/011	300,000,000	2,421,705,400	0.12	-	1098920875	-
2011/012	300,000,000	3,035,390,687	0.10	-	1522708041	-
Average			0.18			-

Source: Annual Report of Everest Bank and NCC Bank

Figure: 4.11

Ratio of Long Term Debt to Share Holders Equity



The above table depicts that the long term debt of EBL are constant and shareholders equity are gradually increasing till the fifth year of the study period. So, the yearly ratios of EBL are decreasing of the study period. The long term debt is constant from starting to end of the study period. Highest long term debt to Shareholders Equity ratio is 0.28 and lowest is 0.10 in the year 2007/08 and 2011/012 respectively. The average ratio of EBL is 0.18. For NCC Bank long term debt to share holders' equity ratio is zero for the study period because there is no long term debt.

4.3.4 Profitability Ratio

Profitability ratio offers several different measures of the success of the firm at generating profits. It indicates succession achieving the desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. Through profitability ratios the lender and investors want to decide whether to invest in a particular business or not. Some of the important profitability ratios used is as follow.

4.3.4.1 Interest Earned to Total Assets Ratio

Interest earned to total assets ratio formed to find out the percentage of the interest earned investing total assets. This ratio can be calculated by dividing the amount of interest earned by the total assets of the firms. It can be expressed as follows:

Interest Earned to total Assets Ratio = Interest Earned / Total Assets

Table: 4.12

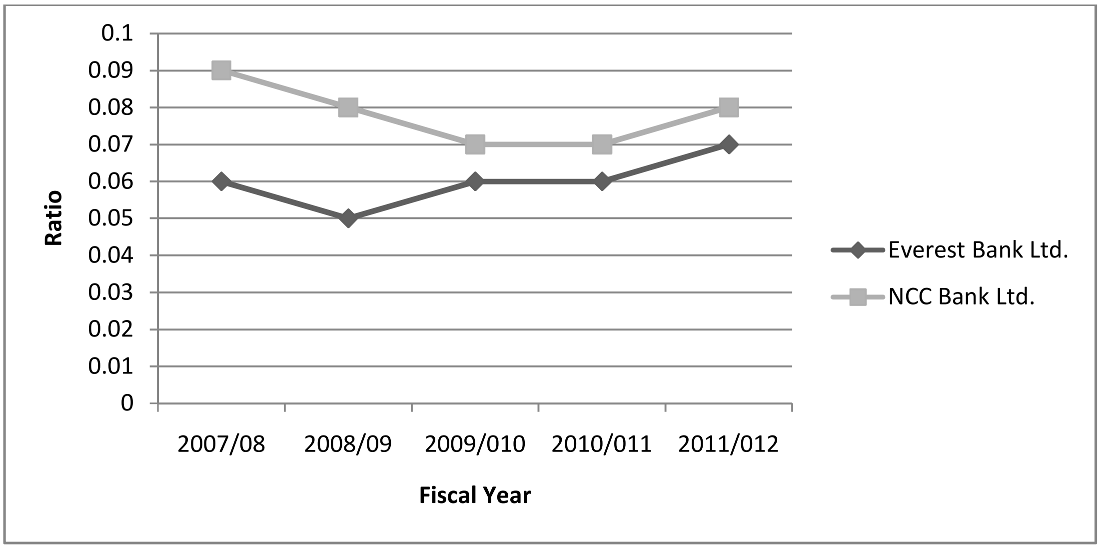
Calculation of Interest Earned to Total Assets Ratio

	Everest Bank Ltd.			NCC Bank Limited		
Year	**Interest Earned**	**Total Assets**	**Ratio**	**Interest Earned**	**Total Assets**	**Ratio**
2007/08	903,411,137	15,959,284,687	0.06	562779986	6427700331	0.09
2008/09	1,144,408,308	21,432,574,300	0.05	474407885	6036676412	0.08
2009/010	1,548,657,132	27,149,342,884	0.06	576608701	8241334403	0.07
2010/011	2,186,14,992	36,916,848,654	0.06	758362584	10590847394	0.07
2011/012	3,102,451,484	41,382,760,711	0.07	1042243146	12761074921	0.08
Average			0.06			0.08

Source: Annual Report of Everest Bank and NCC Bank

Figure: 4.12

Interest Earned to Total Assets Ratio



The above Table and figure depicts that interest earned by EBL is 0.06 in the year first minimal decrease in 2008/09 then it has began to increase till the last year of the study period. The average interest earned to total assets ratio of EBL is 0.06. Which is lower than the yearly ratio of 2011/012 i.e 0.07 and higher than the yearly ratio of 2008/09 i.e. 0.05. And constant to the other years of the study period. For NCC Bank Interest earned is decreased in second year than first year. It is increased in other years. Average interest earned to total assets ratio of 0.08. The highest ratio is 0.09 in 2007/08 and lowest is 0.07 in 2009/10 and 2010/11.

4.3.4.2 Net Profit to Total Assets Ratio

This ratio is very much crucial for measuring the profitability of funds invested in the banks assets. It measures the return on assets. It can be calculated by dividing the net profit tax by total assets. It can be expressed as:

Net Profit to Total Assets Ratio= Net Profit after tax / Total Assets

Table: 4.13

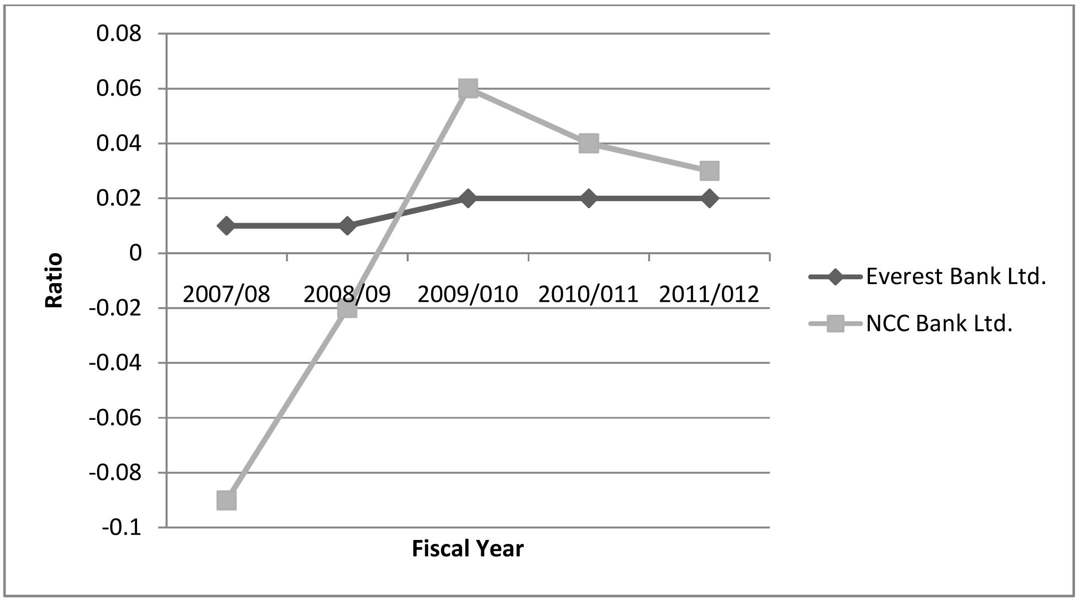
Calculation of Net Profit to Total Assets Ratio

Year	**Everest Bank Ltd.**			**NCC Bank Limited**		
	Net Profit	**Total Assets**	**Ratio**	Net Profit	Total Assets	Ratio
2007/08	168,214,611	15,959,284,687	0.01	(569744713)	6427700331	-0.09
2008/09	296,409,281	21,432,574,300	0.01	(115928547)	6036676412	-0.02
2009/010	451,218,613	27,149,342,884	0.02	498755331	8241334403	0.06
2010/011	638,732,757	36,916,848,654	0.02	415461415	10590847394	0.04
2011/012	831,765,632	41,382,760,711	0.02	423773386	12761074921	0.03
Average			0.02			0.004

Source: Annual Report of Everest Bank and NCC Bank

Figure: 4.13

Net Profit to Total Assets Ratio



The above figure clearly depicts that the overall profitability ratio that is net profit to total assets ratio of EBL are increasing and intermittently constant in the last three year of the study period. The average ratio of EBL is 0.02 which is equal to the yearly ratio of third year to fifth year of the study period and higher than the yearly ratio of first and second year of the study period. The NCC Bank Limited has highest Net Profit to total assets ratio of 0.06 in 2009/10 and lowest is (- 0.09) in 2007/08. It's average is 0.004 for the study period.

4.4 Correlation

Correlation in statistical tool that refers to the closeness of the relationship between two or more variables. We can use correlation to describe the degree to which one variable is linearly related to other variables. The coefficient of correlation deals with determining the degree of relationship between two or more sets of figures. Among the various methods of finding out coefficient practice for calculating correlation coefficient, the most widely used in practice for calculating correlation is karl Pearson's correlation coefficient. So, karl Persib's correlation coefficient method is applied in the study. Correlation coefficient alwasyn lies between +1 to _1. When r= +1, there is perfect positive correlation between two variables and when r= -1, there is perfect negative correlation. And , when r=0, there is no correlation.

4.4.1 Coefficient of correlation between Cash and Bank Balance and Current Liabilities

Cash and bank balance is most liquid components of current assets. This is required to meet the unexpected short term obligation, i.e. current liabilities. The coefficient of correlation between cash and bank balance and current liabilities is to measure the degree of relationship between cash and bank balance and current liabilities. To find out the correlation, various calculations are done. The following table shows the coefficient of correlating between cash and bank balance and current liabilities, i.e. r, PEr and 6PEr.

Table: 4.14

Coefficient of Correlation Between Cash & Bank Balance and Current Liabilities

Bank	r	PEr	6 PEr
EBL	0.955557	0.026216	0.157296
NCC	0.876061	0.07016	0.42096

Source: Appendix- I, & II

From the above table , we can find that coefficient of correlation between cash and bank balance and current liabilities (r) in case of EBL, is 0.955557 it shows significant positive relationship between these two variables. By considering the probable error the PEr is 0.026216 and 6PEr is 0.157296 so, here is r >6.P.Er. So, value of r is Significant.

In case of NCC Bank Limited r= 0.876031. So, it can be concluded that there significant Positive correlation between cash and bank balance and current liabilities but by considering PEr and 6PEr there is PEr is 0.07016 and 6PEr is0.42096. Here r >6 PE so, value of r is significant.

The above analysis, it can be concluded that there is significant positive relationship between cash and bank balance and current liabilities in both banks.

4.4.2 Coefficient of Correlation between net profit and Loan and Advance

The basic function of commercial banks is to collect deposit and invest these funds on loan and advance to generate higher profit. Large amount of loan and advances generate higher profit. The coefficient of correlation between loan and advances and net profit is to measure the degree of relationship between loan and advances and net profit is to measure the degree of relationship between loan and advances and net profit. In correlation analysis, loan and advance is independent variable (Y) and net profit is dependent variable (X). The purpose of computing the correlation of the coefficient is to justify whether the loan and advance are significant to generate profit or not and whether there is any relationship between these two variables. The following table

Table 4.15

Coefficient of Correlation Between Loan and Advance & net Profit

Bank	**r**	**PEr**	**6 PEr**
EBL	0.996170	0.00231	0.01386
NCC	0.150523	0.29482	1.76892

Source: Appendix- III & IV

From the above table, we can find that the correlation between net profit and loan & advances to net profit for Everest Bank Limited is 0.996170, which means significant positive relationship by considering P.Er and 6 P.Er, there P. Er =0.00231 and P.Er= 0.01386 since r > 6.P.Er so, the value of r is significant.

For NCC Bank, r = 0.150523, which means insignificant relationship. By considering P.Er and 6 PEr, the P.Er = 0.29482 and 6 PEr = 1.76892. Here r< PEr, it is insignificant, i.e. there is no evidence of correlation.

From the above analysis it can be concluded that there is significant positive correlation between net profit and loan and advances in EBL but there is no evidence of correlation in NCC Bank.

4.4.3 Coefficient of Correlation between Net Working Capital and Net Profit

The main objective of any firm is to achieve its profit goal. Banks and finance companies are also not exemption from that current asset minus current liabilities is equal to net working capital. Working capital management is very crucial function of management team of any type of organization. Its management fails to keep adequate current assets, it can effect liquidation position of the firm but if it keeps more than its need, it can affect the profitability position of the firm. The coefficient of correlation between net working capital and net profit is to measure the degree of relationship between net working capital and net profit in these companies. In the correlation analysis, net working capital is independent variable (Y) and net profit is dependent variable (X). The purpose of computing the correlation coefficient is to justify whether the net working capital generates profit or not and whether there is any relationship between these two variable the following table shows the r, PEr and 6 Per of concern companies during the study period.

Table: 4.16

Coefficient of Correlation between Net Profit and Net working Capital

Bank	r	PEr	6PEr
EBL	0.918841	0.04698	0.28188
NCC	0.307317	0.27317	1.63902

Source: Appendix- VI, & VII

For EBL, r= 0.918841, it means there is significant positive correlation between net profit and net working capital. By considering PEr and 6 PEr, there is P.Er = 0.04698 and 6 P.Er = 0.28188. Here, r > 6 P.E r so the value of r is significant.

For NCC, r = 0.307317, it means there is low positive correlation between net profit and net working capital. By considering P.Er and 6.P.Er there is P.Er = 0.27317 and 6 P.Er. 1.63902. Here, P.Er < r< 6 P.Er, so nothing can be concluded.

From the above analysis it can be concluded that for EBL the correlation between net profit and net working capital is significantly positive but in NCC Bank nothing can be concluded.

4.5 Major Finding of the Study

The highest percentage in composition of current assets is loan and advances for all banks and lowest is miscellaneous current assets. The NCC Bank limited has lowest of total current assets in all the years than the EBL. The highest percentage in composition of current liabilities is deposit (excd. F.D) for both banks and lowest is borrowings.

- The Everest Bank Limited has highest average of current ratio among the banks. The NCC has lowest average of current ratio. It helps to conclude that Everest Bank Limited has more ability to meet its current obligation than Ncc bank. Similarly, the quick ratio of Everest Bank Limited is also higher than Ncc bank. It also supports the above conclusion.
- The EBL has highest average cash and bank balance to total deposit (excl.F.D) ratio. It helps to conclude that EBL holds more cash than Ncc Bank. It means the EBL has better Liquidity position than Ncc but large amount of idle cash adversely affect the profitability of the bank.
- The NCC Bank Limited has highest average of loan and advances to fixed deposit ratio among banks. It helps to conclude that NCC Bank Limited is effectively using its fixed deposit for profit generating activities.
- The NCC Bank limited does not have long term debt in the study period. The NCC Bank doesn’t have any outsiders claim in share holders' equity. The NCC Bank Limited has highest average of Interest earned to total Assets ratio.

- It helps to conclude that NCC Bank Limited is more effectively using its total assets for profit generating activities .EBL is same in utilizing total assets for generating profit. The EBL has average Net Profit to total assets ratio i.e.0.02. The NCC Bank Limited has lower than other i.e. 0.004.
- From correlation analysis between cash and bank balance and current liabilities of the selected banks, it can be concluded that there is significant positive relationship between cash and bank balance and current liabilities in both banks.
- From the analysis of coefficient correlation between net profit and loan & advances it can be concluded that there is significant positive correlation between net profit and loan & advance in EBL. But there is no evidence of correlation in NCC Bank.
- From the analysis of coefficient of correlation between net profit and net working capital it can be concluded that there is significant positive correlation between net profit and net working capital in EBL but in case of NCC Bank Limited nothing can be concluded.

CHAPTER–V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The final and most important task of the researcher is to enlist finding issues and gaps of the study and give suggestions for the further improvement. This chapter contains summary, conclusions and recommendations. Summary gives the brief introductions of all chapters, Conclusion are based on the consequence of the study of the analysis of relevant data and recommendation are presented in terms of suggestions that are prepared on the basis of the findings.

5.1 Summary

Financial institutions are currently viewed as catalyst in the process of economic growth of a country. A key factor in the development of an economy is the mobilization of the domestic resources. The financial institution helps the process of resources mobilization. However, Nepal has been late recognizing this true fact. Nepal, being the developing country cannot ignore the important of finance for its economic development. After restoration of democracy in 2046 B.S. and announcement of government liberalization policy, private sector investors are attracted to invest in different organized commercial ventures. As a result, numbers of public and private limited companies were established in a short span of time to reap the benefit of economic liberalization policy of the nation.

In general a bank refers to a commercial bank. The activities of commercial bank are synonyms to banking. Bank is such a place where money is transacted. It is hard to define banking exactly because the concept of banking has been arrived from century to century at least in the legal sense. Bank mainly relates to the collection of deposits and granting loans and advances and performing other activities. A bank generally collects deposits from different individuals and institutions and the collected deposits are utilized for giving loans to different individuals, industries and commercial enterprises. Bank performs payment or remittance and other activities also.

For many developing countries, banking sector has become the medium of developing economic situation, as banks help in capital formation in the country. Bank fills the gap between the searcher and the provider of the fund. Bank provides sufficient back support for the growth and expansion of trade and industry of the country, which eventually helps to develop the economic condition of the country. Nepal has adopted different liberal and free economic policy to encourage foreign investments also in banking sector.

The main purpose of this study is to make the comparative analysis of the working capital as well as financial performance of EBL and NCC Bank. To make this thesis more understandable to the readers, available data and information are presented in different suitable tables and diagrams with appropriate analysis and interpretations.

This thesis work has been divided into five chapters. They are – introduction, review of literature, research methodology, presentation, data analysis and findings and finally summary and recommendations.

To carry out the thesis work secondary data have been utilized. The necessary data are derived from the annual reports of EBL and NCC Bank for the period of five years from the fiscal year 2007/08 to 2011/012.

To fulfill the objectives mentioned in the chapter one, a suitable research methodology has been developed, which includes the ratio analysis as a financial tool & correlation coefficient as statistical tools. The major ratio analysis consists of the composition of working capital position, liquidity position, turnover position, capital structure position and profitability position. In order to test the relationship between various components of working capital, Karl Pearson's correlation coefficient 'r' has been calculated and analyzed in the fourth chapter. And at last in this very chapter findings of the whole study with some suggestions and recommendations which might be useful for the concerned banks to improve the performance, have been presented.

5.2 Conclusions

On the basis of the above study, following conclusions have been made:

- NCC Bank has lowest average of loan and advances percentage and highest average percentage of miscellaneous current assets. So, it can be concluded that NCC bank is least effective in management of composition of current assets of two banks.
- The highest portion of current liabilities is deposit (excluding fixed deposit) for all selected bank and lowest is bills payable for EBL and borrowings for NCC Bank Limited which helps to conclude that the highest portion of current liabilities is cost (Interest) bearing for the two banks. So, the banks should properly utilize the deposit for profit generating activities.
- The EBL has better liquidity position than other banks because it has highest average of current ratio, quick ratio and cash and bank balance to deposit (excl FD) ratio.
- The NCC bank limited has highest average of loan and advances to fixed deposit ratio which helps of conclude that NCC Bank is most effective in utilization of fixed deposits for profit generating activities.
- Both banks have significant positive correlation between net profit and net working capital. So, it can be concluded that there is positive relation between profitability and working capital.

5.3 Recommendations

On the basis of the above study, following recommendations have been made which might be useful for concerned banks

- .Even the bank has better liquidity position among two banks but it is below the standard level (i.e. 2:1 for current ratio and 1:1 for quick ratio) so, it should maintain optimum level of liquidity.
- The bank can use more fixed deposits for profit generating activities (i.e. loan and advances).

- The net profit to total assets ratio is increased in last three years than first two year. And it is constant for last three years. The bank should try to increase it. The bank should maintain optimum liquidity position which is very much essential to meet short-term obligation. The bank can use more fixed deposits for profit generating activities (i.e. loan and advances).
- The net profit to total assets ratio is constant throughout the study period. Bank should try to increase it.
- The deposit of the bank can be increased by launching new saving products and opening branches in semi-urban and rural areas.

The bank should maintain optimum liquidity position to meet the short term obligations. It should reduce investment in miscellaneous current assets and increase the loan and advances for increasing profitability.

It should reduce non-performing loan. The profitability is lowest in NCC Bank Limited among the selected bank. So, it should maintain higher profitability. It can use long term debt in capital structure. It should launch new products and open branches to increase deposits.

REFERENCES

Books:

Gupta, D.P. (1984). Banking System: *Its role in Export Development*, Delhi: Tata Megraw Hill.

Khan and Jain. (1999). *Financial Management Text and Problem*, Third Edition, TATA Mc Graw hall Pvt. Ltd., New Delhi.

Pandey, I. M. (1990). *Financial Management* (8th Edition), New Delhi: Vikash Publishing House

Pandey, I.M. (1992). *Financial Management*. New Delhi: Bikash Publishing House.

Pradhan, Radhe Shyam. (1986). *Financial Management* (1986), 'Management of Working Capital, New Delhi: Vikash Publishing House.

Shyam J. And Dangol, R.M. (2056). *Business Finance*. Kathmandu: Taleju Prakashan.

Van Horne, J.C. (1996). *Financial Management & Policy*, New Delhi: Prentice Hall of India Pvt. Ltd.

Van Horne, Jamess C. (2000). *Financial Management and Policy*. New Delhi: Prentice hall of insia pvt. Ltd.

Western, J. Fred and Brigham, Dugene, F. (1996). *Managerial Finance*, New Work: Druden Press.

Journal, Articles & Reports

Bhatta, R. (2011). *An Appraisal of Financial Position of Nepal Bank Ltd.* research study. An Unpublished dissertation.

Jayanta Chakrabarti (2012). *"Relationship between Working Capital Management and Profitability"*

Mahat, L.D. (2010). *Spontaneous Sources of Working Capital Management.* The Kathmandu Post Daily, Vol. XII

Pradhan, I. (2012). The Working Capital Measures the Liquidity, a Glimse on Investment in Different Sectors" A journal on management & Economic: FOM, III (I).

Pradhan, R.S. (2009). *The demand for working capital by Nepalese corporations*. A journal on Management & Economics: FOM, III, (I)

Research Studies:-

Amatya, N.B (2007). carried out a research on the topic “An Appraisal of Financial Position of Nepal Bank Ltd” An unpublished Master Level Thesis Submitted to Shanker Dev Campus, Faculty of Management T.U.

Basnet, A. (2009). *Management of Working Capital in Commercial Banks.* An Unpublished Master’s Degree Thesis, Kirtipur: Central Department of Management, Faculty of Management, Tribhuvan University.

Pathak, S (2010). *“An Evaluation of Working Capital Management of Nepal Lube Oil Limited”.* An unpublished Master Level Thesis Submitted to Shanker Dev Campus, Faculty of Management T.U.

Poudel, R (2012). *"A study on working capital management of Diary Development Corporation".* An unpublished Master Level Thesis Submitted to Shanker Dev Campus, Faculty of Management T.U.

Sharma, D.R. (2006). *“A study on working capital Management of Nepal Battery Co. Limited”*. An unpublished Master Level Thesis Submitted to Shanker Dev Campus, Faculty of Management T.U.

Shrestha, S.K. (2011). *Working Capital and Liquidity Management of Bank of Kathmandu Ltd.*, An Unpublished Master’s Degree Thesis, Kirtipur: Central Department of Management, Faculty of Management, Tribhuvan University.

Upreti, S. (2008). *Working Capital Management in Joint Venture Banks.* An Unpublished Master’s Degree Thesis, Kirtipur: Central Department of Management, Faculty of Management, Tribhuvan University.

Official Web Site:-

www.google.com/search

www.nrb.org.np

www.everestbankltd.com

www.nccbank.com.np

APPENDIX-I

Calculation of Correlation Coefficient

Correlation Between Cash and Bank Balance and Current Liabilities of EBL

In Million Rs

Fiscal Year	Cash & Bank Balance (X)	Current Liabilities (Y)	X^2	Y^2	XY
2007/2008	1553	10454	2411809	109286116	16235062
2008/2009	2,391	14304	5716881	204604416	34200864
2009/2010	3,013	18482	7118224	341584324	49309976
2010/2011	6,164	27363	37994896	748733769	168665532
2011/2012	7,819	27883	61136761	777461689	218017177
N= 5	20,595	98486	11437857	2181670314	486428611

$$r = \frac{\eta \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2}\sqrt{n \sum x^2 - (\sum y)^2}}$$

$$r = \frac{5x486428611 - 20595x.98486}{\sqrt{5x114378571 - (20595)^2}\sqrt{5x2181670314 - (98486)^2}}$$

$$= \frac{403{,}823{,}885}{12154.7863 \times 34768.65505}$$

$$= 0.955557$$

For the calculation of Probable error (PEr);

$$PEr = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - (0.955557)^2}{\sqrt{5}}$$

$$= 0.6745 \times \frac{0.08691}{2.236}$$

$$= 0.026216$$

APPENDIX-II

Calculation of Correlation Coefficient between cash and bank balance and current liabilities of NCC

Year	Cash and Bank Balance (x)	Current Liabilities(y)	x^2	y^2	xy
2007/2008	784	4814	614656	23174596	3774176
2008/2009	758	4810	574564	23136100	3645980
2009/2010	1478	7048	2184484	496745304	10416944
2010/2011	1187	8346	1408969	69655716	9906702
2011/2012	2196	9336	4822416	8716.896	20501856
N=5	6403	34,354	9605089	252801612	48245658

$$r=\frac{n\sum xy-\sum x.\sum y}{\sqrt{N\sum x^2-(\sum x)^2}\times\sqrt{N\sum y^2-(\sum y)^2}}$$

$$=\frac{5\times 48245658-6403\times 34354}{\sqrt{5\times 9605089-(6403)^2}\ \sqrt{5\times 252801612-(34354)^2}}$$

$$=\frac{241228290-219968662}{\sqrt{48025445-40998409}\ \sqrt{1264008060-1180197316}}$$

$$=\frac{21259628}{\sqrt{2650.855711}\times 9154.820807}$$

=0.876061

For the calculation of Probable error (PEr)

$$PEr= 0.6745\times\frac{1-r^2}{\sqrt{n}}$$

$$= 0.6745\times\frac{(0.876031)^2}{\sqrt{5}}$$

$$= 0.07016$$

APPENDIX-III

Correlation Between Loan and advances and net profit of EBL

In Millions Rs					
Fiscal Year	Net Profit (X)	Loan and advances (Y)	X^2	Y^2	XY
2007/2008	168	9801	28224	96059601	1646568
2008/2009	296	13664	87616	186704896	4044544
2009/2010	451	18339	203401	336318921	8270889
2010/2011	639	23885	408321	570493225	15262515
2011/2012	832	27557	692224	759388249	22927424
N= 5	2386	93,246	1419786	1948964892	5215940

$$r = \frac{n\sum xy - \sum x.\sum y}{\sqrt{N\sum x^2 - (\sum x)2}\sqrt{N\sum y^2 - (\sum y)^2}}$$

$$= \frac{5\times52151940 - 2386\times93246}{\sqrt{5\times1419786 - (2386)^2}\sqrt{5\times1948964892 - (93246)}\ ^2}$$

$$= \frac{260759700 - 222484956}{\sqrt{7098930 - 5692996}\sqrt{9744824460 - 8694816516}}$$

$$= \frac{38274744}{1185.720878\times32403.82607}$$

$$= 0.996170$$

For the calculation of Probable error (PEr);

$$\text{PEr} = 0.6745\times\frac{1-r^2}{\sqrt{n}}$$

$$= 0.6745\times\frac{1-(0.996170)^2}{\sqrt{5}}$$

$$= 0.6745\times\frac{1-0.9923546}{2.236}$$

$$= 0.00231$$

APPENDIX-IV

Calculation of Coefficient of Correlation between Net Profit and Loan and Advance of NCC Bank Limited

Rs in Million

Year	Net Profit(x)	Loan and Advance (y)	x^2	y^2	xy
2007/2008	(570)	4664	324900	21752896	(2658480)
2008/2009	(116)	3783	13456	181063936	(438828)
2009/2010	499	4572	249001	20903184	2281428
2010/2011	415	7045	172225	49632025	2923675
2011/2012	424	8095	179776	65529025	3432280
N=5	652	28159	939358	338881066	5540075

$$r=\frac{n\sum xy-\sum x.\sum y}{\sqrt{N\sum x^2-(\sum x)^2}\times\sqrt{N\sum y^2-(\sum y)^2}}$$

$$=\frac{5\times 5540075-652\times 28159}{\sqrt{5\times 939358\times(652)^2}\times\sqrt{5\times 338881066-(28159)^2}}$$

$$=\frac{27700375-18359668}{\sqrt{4685410-425104}\sqrt{1694405330-792929281}}$$

$$=\frac{9340707}{2{,}066.805748\times 30024.59074}$$

=0.150523

For the calculation of Probable error (PEr)

$$PEr=0.6745\times\frac{1-r^2}{\sqrt{n}}$$

$$=0.6745\times\frac{1-(0.150523)^2}{\sqrt{5}}$$

=0.29482

APPENDIX-V

Calculation of Net Working Capital

In Millions Rs.

Year	Everest Bank Ltd.			NCC Bank Limited		
	C.A.	**C.L.**	**Net working capital**	**C.A**	**C.L**	**Net Working Capital**
2007/2008	14999	10484	4545	6019	4812	1207
2008/2009	20033	14304	5729	5538	4810	728
2009/2010	25133	18482	6651	7821	7048	773
2010/2011	34124	27363	6761	9748	8346	1402
2011/2012	38922	27883	11039	12090	9336	2754
N=5	133211	98486	34725	41216	34352	6864

APPENDIX-VI

Calculation of Correlation Coefficient between Net Profit and Net Working Capital of EBL

Rs In Million

Year	Net Profit (x)	Net Working Capital (y)	x^2	y^2	xy
2007/2008	168	4545	28224	20,657,025	763,560
2008/2009	296	5729	87616	32,821,441	1,695,784
2009/2010	451	6651	203401	44,235,801	2,999,601
2010/2011	639	6761	4,08,321	45711,121	4,320,279
2011/2012	832	11039	692,224	121,859,521	9,184,448
N=5	2386	34725	1,419,786	265,284,909	18,963,672

$$r=\frac{n\sum xy-\sum x.\sum y}{\sqrt{N\sum x^2-(\sum x)^2}\times\sqrt{N\sum y^2-(\sum y)^2}}$$

$$=\frac{5\times 18963672-2386\times 34725}{\sqrt{5\times 1419786-(2386)^2}\ \sqrt{5\times 265284909-(34725)^2}}$$

= 0.918841

For the calculation of Probable error (PEr)

$$PEr=0.6745\times\frac{1-r^2}{\sqrt{n}}$$

$$=0.6745\times\frac{1-(0.918841)^2}{\sqrt{5}}$$

=0.04698

APPENDIX-VII

Correlation Between Net Profit and Net Working Capital of NCC Bank Limited

Rs In Million

Year	Net Profit (x)	Net Working Capital (y)	x^2	y^2	xy
2007/2008	(570)	1207	324900	1456849	(687.990)
2008/2009	(116)	728	13456	529984	184448
2009/2010	499	773	249001	597529	385727
2010/2011	415	1402	172225	1965604	581830
2011/2012	424	2754	179776	7584516	1167696
N=5	652	6864	939358	12134482	1362815

$$r=\frac{n\sum xy-\sum x.\sum y}{\sqrt{N\sum x^2-(\sum x)^2}\times\sqrt{N\sum y^2-(\sum y)^2}}$$

$$=\frac{5\times1362815-652\times6864}{\sqrt{5\times939358-(652)^2}\sqrt{5\times12134482-(6864)^2}}$$

$$=\frac{2,338747}{\sqrt{4696790-425104}\times\sqrt{60672410-47114496}}$$

$$=\frac{2338747}{2066.805748\times3682.107277}$$

=0.307317

For The Calculaton of Probable Error (PEr)

$$PEr=0.6745\times\frac{1-r^2}{\sqrt{n}}$$

$$=0.6745\times\frac{1-(0.307317)^2}{\sqrt{5}}$$

=0.27317